Austria	Sch24	Indonesia	Rp3400	Philippines	Pso40
Bahrain	Din0.700	Iran	Rls210	Portugal	Es150
Belgium	BFr55	Israel	Shk3.50	Qatar	QR8.00
Cyprus	C£0.90	Italy	L2000	S.Arabia	SR7.00
Denmark	DKr12.00	Jordan	Fils1000	Singapore	S$4.10
Egypt	E£3.25	Kuwait	Fils.600	Spain	Pta165
Finland	Fmk9.00	Lebanon	L£600.00	Sweden	SKr12
France	FFr7.50	Lux	LFr55	Switz	SFr2.50
Germany	DM2.60	Malaysia	M$4.25	Thailand	Bht50
Greece	Dr150	Morocco	Dh6.50	Tunisia	Din0.900
Hong Kong	HK$12	Neth	Fl3.25	Turkey	L1400
Hungary	Ft107	Nigeria	Naira10	UAE	Dh7.00
Iceland	Kr160	Norway	NKr12.00		
India	Rs15	Oman	OR1		

EUROPE'S BUSINESS NEWSPAPER

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SCANDINAVIA
Building a bridge to prosperity
Page 18

World News

EC behind schedule on standards for single market

The European Community is falling badly behind in its drive to create the European standards essential to its planned single market.

The Brussels Commission fears only a small proportion of the roughly 3,000 standards needed will be ready by the end of 1992. Page 18

Yemeni unity step

Conservative North and Marxist South Yemen moved closer to a merger with an announcement that the armed forces of the two countries had been technically dissolved ahead of a unity declaration expected *later this month*. Page 4

Car bombs kill 22

Three car bombs killed at least 22 people in Colombia as the country's drug barons appeared to switch to indiscriminate attacks in their nine-month-old war against the government.

Coup attempt fails

Three people were killed and 20 injured in a failed coup on the Indian Ocean island of Madagascar. Rebels seized the state radio station, but the government quickly regained control. Page 4

Minority rights plan

The South African Government spelt out its negotiating position ahead of talks on the country's constitutional future, in a 12-point plan to protect minority rights. Page 4

Vandals daub graves

Some 250 Jewish graves in the northern Israeli city of Haifa were found daubed with anti-Israeli graffiti in an attack apparently inspired by the desecration of Jewish graves in France last week. Page 4

US airmen shot dead

Suspected communist guerrillas shot dead two American airmen outside Clark air base on the eve of US-Philippine talks on the future of American military bases in the country. Talks on bases, Page 4

Refugees flee Chad

Sudan says some 10,000 refugees have entered the country following renewed fighting between Chadian troops and opposition forces.

Goddess docks

The Goddess of Democracy radio ship docked at Taiwan's Keelung harbour as organisers said its mission to broadcast pro-democracy messages to China was in trouble.

Algerian floods

At least 16 people died in torrential rains that washed away four bridges and isolated large sections of northern Algeria.

Italian super-gun link

The Italian seizure of more than 90 tonnes of steel forgings suspected of being components for Iraq's super-gun is the first confirmation that more than one country may have been involved in its manufacture. Page 2

Baltic meeting plea

Leaders of the three Baltic republics sent President Mikhail Gorbachev a telegram asking him to set a time and place for discussions on restoration of their sovereignty. Baltic states meet, Page 3

Olive branch

Iraqi President Saddam Hussein proposed a meeting with Iranian President Ali Akbar Hashemi Rafsanjani to break the deadlock which followed the Gulf War. Page 4

Rebels attack train

At least 18 people were killed in a rebel attack on a train in southern Mozambique.

Chinese leader lives

Chinese senior leader Deng Xiaoping dispelled widespread rumours of his death when he met Egyptian President Hosni Mubarak in his first known engagement in nearly three months.

Boesky to testify

Ivan Boesky, the convicted stock speculator on whose evidence the US Government has built its Wall Street investigations, is to testify in public today for the first time.

Gas factory blocked

A West German minister said in Israel that Bonn had thwarted covert Libyan efforts to obtain machinery for a second poison gas factory.

Deportation threat

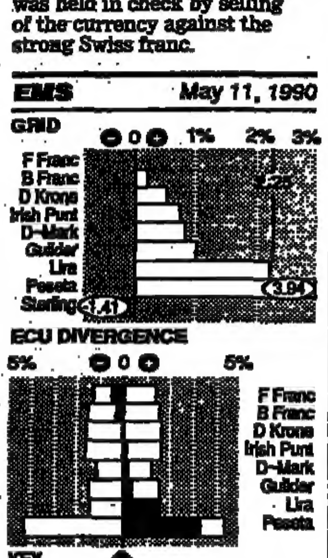
The British Home Office said that more than 30 Chinese people had gone into hiding in Britain to avoid deportation.

Business Summary

White House sets $50bn initial target for deficit cut

The Bush Administration has set an initial target of a roughly $50bn reduction in *the federal deficit in budget* negotiations with congressional leaders, due to start tomorrow in a mood of mutual suspicion. Democratic leaders are insisting that Mr Bush declares his hand first. Page 18

EUROPEAN Monetary System: The French franc was weak, around the bottom of the EMS last week, on political uncertainty after the French Government was forced to survive a censure motion. Support for the franc was provided by the Bank of Italy, as the lira touched its upper divergence limit within the system. The D-Mark had a firmer tone, but was held in check by selling of the currency against the strong Swiss franc.



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

ERICSSON, the Swedish telecommunications group, in partnership with the German company Siemens AG, has been awarded a DM350m ($211m) contract to implement the digital mobile cellular system D2 by Mannesmann Mobilfunk of Düsseldorf. The system will start in service at the end of 1992. Page 3

JACOBS SUCHARD USA, American subsidiary of the Swiss confectionery and coffee company, failed in its attempt to win Foreign Trade Zone status. Chicago-based Suchard *USA, formerly E.J. Brach &* Sons and the third largest candy maker in the US, sought the status to save on sugar purchases. Page 23

SEIBU Saison International, part of the Japanese Saison conglomerate that bought the Intercontinental hotel chain in 1988, has acquired 10 per cent of Mr Richard Branson's Virgin Atlantic airline and travel group in exchange for a £36m ($60.12m) injection of equity and convertible loan capital. Page 8

FINANCING German unification will be the subject of talks in East Berlin today amid signs that the overall budget deficit for a united Germany next year could top DM100bn ($60.24bn). Page 3

INVESTMENT: Two investment funds totalling $500m which will invest in US mortgage-backed securities will be launched in Europe by Citicorp this week. Both are aimed at non-US institutional investors. They were being marketed in Japan last week. Page 23

UK Treasury plans to warn spending ministers that it will be forced to increase taxes in next year's Budget unless they scale back substantially bids *which would increase their* spending by around £15bn ($25.05bn) next year. Page 6

STANDARD & Poor's, US credit rating service, expects the slump in the real estate sector and related loan prob*lems to lead to the downgrad*ing of several US banking groups soon. Page 23

MEXICO'S Congress voted to end government control of the banking industry, nationalised eight years ago to halt massive capital flight *at the height of* the foreign debt crisis.

FRANCE'S stock market supervisors have produced a batch of new regulatory texts which will, if approved by Finance Minister Pierre Bérégovoy, form the basis of French practice on financial information, insider dealing and market manipulation. Page 23

Moscow plans for heavy job losses in market economy

By Quentin Peel in Moscow

THE SOVIET Government has drawn up a Rbs4bn ($6.5bn) plan to cope with a sharp rise in unemployment, including up to 2m people likely to be sacked from bankrupt state enterprises, as the Soviet Union switches to a market economy.

Details of the plans have been made public in the latest attempt to reassure the Soviet public about the painful consequences of President Mikhail Gorbachev's *economic reforms*.

Mr Gorbachev, in an effort to confirm the switch to a market system, has stepped up his public campaigning during the past two weeks. He has insisted that the move will neither mean a complete switch to *market capitalism, nor* unacceptable suffering for the poorest people in Soviet society.

However, he has admitted that it would mean a large increase in structural unemployment, and would require huge efforts to provide social compensation to fixed-income earners and the low-paid.

The unemployment countermeasures were spelt out by Mr Valery Kolosov, director of the labour resources and employment department at the State Labour Committee.

He said that Rbs4bn would be needed to cope with the rise in the number of jobless, with more than half devoted to retraining programmes, Rbs500m on creating new jobs, and Rbs200m on paying unemployment benefits.

Every worker would be guaranteed a full salary for three months after losing his or her job, followed by at least 50 per cent pay for another year. After that they would be entitled to unemployment benefit, equal to the minimum wage, for another 26 weeks. He did not say what would happen if unemployment continued after that.

Mr Kolosov said that at least 2m people were *already* classifiable as unemployed in the Soviet Union according to international standards.

"By 1995 their number could increase to between 5m and 6m, and consequently all the problems associated with *unemployment* would be aggravated."

He said the State Labour Committee estimated that 2m people would be laid off in mass redundancies, presumably caused by the closure of loss-making enterprises, while *another 1.5m would* enter the labour market for the first time. About 1m of the first-time job seekers might be left without work.

He suggested that the problem of hidden unemployment could be far worse. "The market cannot cause mass-scale unemployment," he said. "However, inefficient and unskilled labour would be displaced. Today, there are about 8m-10m people in this category."

Mr Gorbachev told the Moscow workers last week that "it is now clear that what takes two or three people to do here is done by one person in the West."

In a bid to soften his message, Mr Gorbachev added that "structural unemployment" was inevitable, but that it would be temporary.

Mr Nikolai Ryzhkov, the Prime Minister, in a television interview on Saturday insisted that there were 10m jobs unfilled in the service sector, which could absorb those losing their jobs in bankrupt state enterprises.

Mr Ryzhkov also promised that prices for a wide range of essential foods would still be *controlled after retail prices* were reformed in January, 1991.

The Soviet labour force numbers rather less than 120m, so even unemployment of 6m is not on a par with the problem in some capitalist countries.

This week *is expected to* be critical for the final shape of the reform programme, with meetings of both the Council of Ministers – the Soviet government – and Mr Gorbachev's Presidential Council, expected before the plans are finalised *for presentation* to the Supreme Soviet on May 21.

They have already been sent back for redrafting - partly to provide greater social protection, and partly for more radical measures to cut back state bureaucracy - by the President's Council, arousing widespread suspicions that they would be long delayed and weakened.

However, Mr Gorbachev and his closest economic advisers are sounding determined that the switch to a market economy will be swift.

Mr Ryzhkov, who holds more cautious views, said he rejected "shock therapy" as a possible alternative, and insisted that prices for foodstuffs including meat, milk, bread, butter, sugar and oil would remain controlled, and promised "full compensation" for groups such as students, pensioners, large families and low-income families.

Estonians ignore Gorbachev's offer, Page 3

UK troop cuts to form part of Nato arms talks

By David White, Defence Correspondent, in London

THE UK Government plans to put forward proposals for reducing British forces in Germany as early as this autumn, as part of a new Nato arms negotiation platform, according to senior officials.

The proposed cut in the UK's 70,000-strong military presence would be discussed along with other troop levels in the central region in fresh arms control talks immediately following an agreement in the current Conventional Armed Forces in Europe (CFE) negotiations in Vienna.

The UK wants these talks, involving the 23 Nato and Warsaw Pact countries, to be held under the same mandate as the CFE negotiations.

The future strength and composition of UK forces in West Germany are at the centre of a review being carried out by central staffs at the Ministry of Defence.

The forces include three armoured divisions of the British Army of the Rhine, with about 55,000 troops, which the UK is committed to keeping in West Germany under the treaty governing the nine-nation Western European Union.

The UK originally opposed bringing its troops into the arms control talks, and until recently argued for a pause after the current negotiations before further cuts were considered.

However, both Foreign Office and Ministry of Defence officials said they now foresaw new talks very soon after a CFE treaty. They would coincide with planned negotiations

Continued on Page 18
Vienna talks, Page 2

Philips expected to announce drastic restructuring measures

By Laura Raun

TOP EXECUTIVES of Philips, the troubled Dutch group which is Europe's largest electronics company, were locked in crisis talks over the weekend ahead of what is expected to be an important announcement by the company this morning.

A series of drastic measures intended to turn around the group is expected. There has been speculation these could include the departure of Mr Cor van der Klugt, 65, Philips' chairman.

Today's announcement is likely to include a re-shuffle of other top management, including the possible early retirement of at least two board members. The Philips board may also be reduced in size.

Mr van der Klugt, chairman *since 1986, has already* announced plans to retire in July next year. He is due to be succeeded by Mr Jan Timmer, who now heads the consumer electronics division.

If he were to step down now it would be an historic move – *it is rare for the top executives* at Dutch companies to resign when their companies run into difficulties.

In addition to speculation about Mr van der Klugt, there have been suggestions that Philips may seek government financial aid to survive as a repository of strategic high technology for the European Community.

Mr Wisse Dekker, chairman of the supervisory board, rushed back to Eindhoven early last week to take control *of the rescue operations*. He is a former Philips chairman.

Earlier this month, the Philips main board said it was "astonished" by the plunge in earnings in the first three months of this year.

It announced that profits *excluding extraordinary gains* plunged to only Fl 6m ($1.07m) in the first quarter from Fl 223m a year earlier, dragged down by foreign exchange conversions and losses in computers and integrated circuits.

Three weeks earlier, Mr van der Klugt *had told* shareholders that business was on course for higher profits in 1990.

Dutch MPs have summoned Philips representatives to Parliament to explain what has gone wrong.

Kohl loses control of upper house in election setback

By David Marsh in Bonn

WEST GERMANY'S governing Christian Democratic Union suffered a serious setback in two key state elections yesterday, losing Lower Saxony and failing to dent the Social Democrats' absolute majority in North Rhine-Westphalia.

The Social Democrats' wins in two northern states comprising 40 per cent of the country's population greatly complicates Chancellor Helmut Kohl's policy-making over financing German reunification.

The loss of Lower Saxony, where Mr Ernst Albrecht, the Christian Democrat Premier, had ruled for 14 years, deprives Mr Kohl's Christian Democrats of a majority in the Bundesrat, the upper house of Parliament, which has a significant influence over Bonn's financial policies.

Mr Kohl admitted last night his party had suffered a "painful defeat".

West Germany is now divided between Social Democrat-held northern states and the conservative-run South. The uncertainties created by *the new political arithmetic* appeared last night to increase the chances of accelerated all-German parliamentary elections in both East and West Germany, perhaps in the early New Year.

Mr Kohl is due to meet Mr Lothar de Maiziere, the East German Prime Minister, in East Berlin tonight for further talks about unity.

Voting in both polls was heavily influenced by mounting concern in West Germany over the social and economic costs of unity.

Mr Volker Rühe, general secretary of the Christian Democrtatics, called the party's depressing score "partly a victory for the fear-mongers". The West German results contrast with East Germany, where yearning for a quick merger with the west has carried the Christian Democrats to resounding victories in the country's first two democratic elections in the last two months.

Yesterday's results represented the 11th set of defeats for Mr Kohl's party in 12 West German regional and national elections (including last year's European elections) since the last general election in January 1987.

In Lower Saxony, Mr Gerhard Schröder, the jubilant candidate for the premiership, saw the Social Democrats in

Continued on Page 18

Thatcher ready to join exchange rate mechanism

By Philip Stephens, Political Editor, in London

MRS Margaret Thatcher has dropped her veto on full British membership of the European Monetary System, paving the way for sterling to participate in the EMS exchange rate mechanism within the next year.

Her change of heart, signalled obliquely at the Scottish Conservative Party Conference, leaves the timing of a decision to join in the hands of Mr John Major, the Chancellor. His cabinet colleagues believe that he will give the go-ahead around the turn of the year when Britain's inflation rate should be on a firmly downward trend.

Thatcher: change of heart

The Prime Minister's shift comes as part of a much wider reshaping of the Government's policy towards European intergration designed to emphasise that it will adopt a positive approach.

Last Thursday a key cabinet committee chaired by Mrs Thatcher – Overseas and Defence – gave broad approval to a shopping list of ideas for institutional changes as Britain's contribution to the *European Community's debate* on political union.

The list, drawn up by Mr Douglas Hurd, the Foreign Secretary, includes suggestions that the European Parliament should be given greater powers of finacial scrutiny and that majority voting within the council of ministers might be extended to areas such as the environment.

Mrs Thatcher has also given Mr Major the go-ahead to table new proposals on European economic and monetary union ahead of the Intergovernmental Conference (IGC) later this year. They fall short of the single currency sought by some other governments, but represent a significant advance on Britain's original plan for a system of "competing currencies".

Senior ministers say that the Prime Minister has not altered her hostile attitude to many of the ideas advanced by Britain's partners. She has accepted, however, that both the domestic and international political situation point to the need for the Government to be seen to be taking a constructive stance.

Speaking in Aberdeen at the weekend, Mrs Thatcher indicated that she now accepted that her principal remaining condition for participation in the ERM - a fall in the inflation rate to closer than the European average - was much closer to being met than the 9.4 per cent "headline" rate for the retail prices index suggested.

She echoed recent statements by Treasury ministers saying that the appropriate comparision was between Britain's "underlying" inflation rate of 6.5 per cent and the comparable European level of 5 per cent. "If you compare like with like, we are not so far above Europe's average for inflation", she said.

The Prime Minister also signalled her acceptance of the argument than full membership of the ERM could reinforce the Government's efforts to get down inflation and interest rates before the next general election. She insisted that the EMS did not provide a "soft option" before adding that: "*The truth is that the ERM is* a supplement to sound financial policies, not a substitute".

Mrs Thatcher indirectly acknowledged the political advantage that the Labour Party is deriving from its commitment to the ERM by insisting that the opposition "could not manage" the firm financial discipline required.

Lombard, Page 17

Britain is to offer Czechoslovakia advice on how to solve unemployment problems. Mr Michael Howard, UK Employment Secretary, is to agree a package under the Government's £75m ($122m) "Know How" initiative to help new east European governments. The *measures have been devised* in the expectation of a sharp rise in Czech unemployment. He said the initiative would draw on Britain's experience of economic restructuring in the 1980s. Page 6

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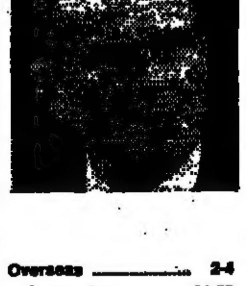
THE MONDAY INTERVIEW



"If you want to see the benefits of stability, all you have to do is look at Japan", says US Treasury Secretary Nicholas Brady (left). He adds: "We should be headed in their direction". Page 34

Italy strikes off the final shackle on the free movement of capital

By John Wyles in Rome

THE ITALIAN economy today emerges from more than 70 years of autarchy and financial protection with the removal of all controls on the movement of capital into and out of the country. The new era is expected to impose hitherto unknown disciplines *on economic management* which, among other things, could require evidence of a more urgent attack on a budget deficit which has stubbornly resisted every political effort over the past three years to reduce it in nominal terms.

.Appropriately, the new freedoms arrive at the start of a week when the Government is planning its ritual mid-year manoeuvre to bring the deficit back into line with its budgetary target. On Friday, ministers are expected to agree a package of spending cuts and higher public service charges designed to cut L10,000bn (£4.9bn) off a projected shortfall of L147,000bn. With another L4,000bn to be achieved through *economies in management of the* Treasury, it is hoped to bring the deficit back to the L133,000bn (10.4 per cent of gross domestic product) set in the 1990 budget.

This may then create scope for a modest reduction in interest rates which are among western Europe's highest. The Treasury believes international rates do not allow much room for manoeuvre and *that* a further marked reduction in the annual inflation rate, currently around 5.8 per after peaking at 7 per cent last year, offers the best hope of lower rates. Much also depends, however, on the outcome of negotiations on pay deals for key groups of workers.

The Italian liberalisation means that all European Community countries have now fallen in line with the directive to lift exchange controls by July 1 (except Spain, Portugal, Ireland and Greece which have until *1992 to complete the process*). Thus, the Twelve are on target to open the first phase of economic and monetary union (EMU) from July 1, and Italy itself is politically qualified to play a leading role in the negotiations aimed at completing EMU by the beginning of 1993.

Rome began its phased introduction of free capital movement in the autumn of 1987 with a carefully conceived plan which has not encountered any serious problems. During this period, monetary policy has been kept tight, helping to attract net capital inflows over the past two years of more than L60,000bn and to revalue the lira by about 3 per cent against other EC currencies. This *smoothed the path for acceptance* in January of the narrower 2.25 per cent margin of manoeuvre in the exchange rate mechanism after a special decade-long dispensation which allowed a 6 per cent margin.

In the short term, the Treasury and the central and commercial banks are all fairly confident that free movement of capital will cause no serious traumas. The total liberty to buy foreign securities, and to open bank accounts abroad and foreign currency accounts at home is not expected to cause any sudden haemorrhage of funds. None the less, there will be some adjustment since the total of Italian savings committed abroad is only about 3 *per cent, compared to around 10 per* cent in France and West Germany.

But over time, the intermediation capacities of the Italian banking system will face a stern test with the full opening of EC financial markets. Apart from its intrinsic inefficiencies, the banking system begins with initial handicaps in the shape of high obligatory reserve requirements and a 30 per cent tax on bank deposits which the Government had promised to reduce later in the year.

Some restrictions on the modalities of capital movements will remain. The authorities are insisting that transactions above L20m (£9,840) must be made through the banking system or authorised inter*mediaries so that they can monitor* flows and restrict tax evasion.

Net widens in Iraq 'super-gun' probe

By John Wyles *in Rome*

THE ITALIAN seizure at the weekend of more than 90 tonnes of steel forgings suspected of being components for Iraq's "super-gun" is the first confirmation that more than one country may have been involved in its manufacture.

In a joint operation by the carabinieri and the Italian military secret service, four containers carrying 75 tonnes of forgings were blocked at the end of last week just before loading on to an Italian merchant ship bound for Aquaba in Jordan, and then for an unnamed Iraqi port.

They were manufactured, ostensibly as petrochemical plant components, by Societa delle Fucine, a subsidiary of the Ilva state steel company, to an order from Baghdad's Ministry of Industry.

An additional 15 tonnes of products have been sequestered at the company's works at Terni, in central Italy, while a further tonne and a half of material has been sealed in the warehouses of two small, unnamed companies operating in Brescia, east of Milan.

The Carabinieri say that the steel products which have been siezed are mechanical, electronic and hydraulic parts which could have been used in the rear part of a gun. So far, no arrests have been made.

According to Ilva, the components sequestered by the authorities are the second of two orders worth L4.8bn (£2.36m) placed by the Iraqis eight months ago.

A first consignment has *already been shipped* and, says Ilva, "the pieces do not resemble tubes or bodies of guns, they have a prismatic form."

IMF tells Athens to act firmly to head off crisis

By Kerin Hope in Athens

THE GREEK Government must introduce monetary curbs and structural reforms quickly to avert an approaching crisis, the International Monetary Fund concludes in its annual report on Greece's economy.

Echoing recent statements by European Community officials, the report says that unless a "fair but realistic" package of front-loaded austerity measures is introduced, the public sector borrowing requirement will rise by 4 percentage points this year to a record 23 per cent of GDP.

The new Conservative Government last month raised prices of luxury goods and public services, froze index-linked pay increases for the next four months and imposed a tax surcharge on 1989 profits. But structural reforms, which would carry a heavy political cost, are still being debated.

The IMF report says that debt-burdened industrial companies under state control should be privatised or liquidated. It also calls for radical reform of the state pension system and staff cuts in state-owned banks and public sector corporations.

The Government has started procedures for selling off or closing more than 40 ailing companies. Plans to streamline the social welfare system are at the discussion stage.

Even if the Government succeeds in overhauling the public sector, it will take four years for inflation, currently 18 per cent, to fall to 6 per cent and growth to reach 3 per cent, according to the report.

If the Conservatives fail to act decisively, the report predicts, the PSBR will rise to 46 per cent of GDP in 1993 and the annual inflation rate will reach 55 per cent.

Military blocs make final push for troop cuts accord

By David White, Defence Correspondent

NEGOTIATORS from the 23 Nato and Warsaw Pact countries reconvene today in Vienna for what promises to be one long, last round of talks attempting to conclude a treaty on their conventional ground and air forces by the end of the year.

Delegates at the Conventional Armed Forces in Europe (CFE) negotiations said the talks, which have gone through six rounds since they began in March last year, were likely to become virtually continuous.

A senior Nato official said that the substance of a treaty needed to be settled by the end of next month in order to ensure that a detailed pact, in six languages, was ready for the planned end-of-year summit of the Conference on Security and Co-operation in Europe (CSCE).

The US has made clear it will not attend a summit unless a CFE agreement is concluded. Under current proposals, a treaty would involve the destruction of more than 100,000 items of equipment, principally Soviet.

Western negotiators are anxious to revive the pace of the talks after a stiffening of Soviet positions slowed progress in the last six-week round which ended on April 26.

Diplomats said the change appeared to reflect a shift in Soviet priorities from the Vienna talks to the "2-plus-4" negotiations dealing with the status of a united Germany. They said it might also indicate a resurgence of conservative military influence in Moscow.

In *addition*, the formulation of negotiating positions has been complicated by the Soviet Union's increasing difficulty in obtaining unanimity from its nominal allies in the Warsaw Pact.

However, only minor details separate the two sides in the main items of army equipment – tanks, artillery and armoured combat vehicles - and diplomats believe agreement on cutting military helicopters is also within reach.

On the other hand, prospects are more dubious for aircraft, for which proposals differ widely. Nato did not agree to *include aircraft until last May*, but has since become the keener of the two sides to achieve comprehensive limits. Moscow's proposed ceiling of 7,700 aircraft is more than Nato's holdings and compares with a Nato proposal of 4,700.

A recent Soviet proposal for a limited pact covering US and Soviet aircraft stationed in the territory of their allies, limiting each to 500, was described by Western officials as "not serious." The proposal would not affect Soviet aircraft in the European part of the Soviet Union.

Western participants have *also dismissed Soviet proposals* – backed by the rest of the Warsaw Pact except Hungary – for a limit of 700,000-750,000 on troop levels in the central region, including both national and stationed forces in Germany.

This, they claimed, was reneging on an agreement based on President George Bush's proposal for the US and the Soviet Union to reduce their central region forces to 195,000 each, with the US retaining an additional 30,000 in Europe outside this region.

However, some Western analysts believe the total proposed by the Soviet Union could be acceptable to Nato, in the light of reductions already being considered by West Germany and by the six Nato allies with troops stationed there.

Nato officials have been working on the assumption that force levels in the central region can be dealt with in follow-on negotiations in Vienna.

However, no consensus has yet been reached on the timing or content of follow-on talks. Most Nato countries and the Soviet Union favour limiting the talks to the same group of *countries, but France has* argued that any further negotiations should embrace all 35 CSCE countries.

DENMARK'S Foreign Minister, Mr Uffe Ellemann-Jensen, has come out in support of establishing of a European security council, with its basis in the 35 signatories (including the US and Canada) to the Conference on Security and Co-operation in Europe, as a supplement to a reformed Nato and Warsaw Pact structure, writes Hilary Barnes in Copenhagen.

Mr Ellemann-Jensen will be host to a month-long human rights session of the CSCE in the Danish capital starting on June 5.

In an interview with the Copenhagen newspaper Berlingske Tidende, he said that such an organisation could help tackle the ethnic and nationalist conflicts surfacing in Europe. The idea had previously been aired by President Mikhail Gorbachev, and is also supported by Mr Hans Dietrich Genscher, the West German Foreign Minister.

"It is possible that such a council should even have a peace-keeping force at its disposal," said Mr Elleman-Jensen. He expects a high level group to be set up at the conference to consider the establishment of a permanent secretariat for the CSCE process.

Mr Ellemann-Jensen emphasised that a European security council would supplement, not replace, Nato.

EC may act on car insurance

By Tim Dickson in Brussels

PLANS TO allow European Community companies to sell compulsory motor insurance across national frontiers may be approved by internal market ministers today.

Agreement would establish an important principle for the European Commission, but industry observers believe the business opportunities arising and the impact on premium levels will be minimal.

Brussels' efforts to encourage cross-border competition in insurance have made limited progress in recent years, but they are likely to be stepped up later this year when Sir Leon Brittan, the financial services *Commissioner, comes forward* with details of two ambitious "framework" directives.

Modelled on recent legislation for the EC banking sector, these will set out the details for a single insurance licence, or "passport", enabling companies legally established in one member state to offer the full range of their life and non-life services in another.

In the meantime, the EC's existing agenda will provide member states with an opportunity to draw up the battle lines. The main item at today's meeting is a proposed directive which effectively slots compulsory motor insurance into the already adopted 1988 non-life directive.

Some countries still think motor insurance is too sensitive *to be included at all, but* the Commission, egged on in particular by Britain, insists that the freedom to sell policies across borders should be granted in relation to "large risks". These are defined as companies which exceed a certain size (satisfying two of the three criteria relating to turnover, workforce, and balance sheet total).

Under the terms of the directive these large risk policyholders will come under "home" country control, i.e. the rules of the country where the insurer is established, though "host" country rules will apply for technical reserves until the EC's insurance accounts directive is adopted.

It is this which industry experts say is likely to restrict *opportunities for companies*, making it in all probability uneconomic to pursue business across borders,

Finland sees prospect of EC membership receding

By David Buchan in Brussels

NEW MOVES towards EC political union make it harder for Finland to contemplate applying for full membership, according to Mr Harri Holkeri, its Prime Minister.

After talks with the European Commission last Friday, Mr Holkeri said he saw no alterative to joining other members of the European Free Trade Association (Efta) in trying to negotiate the so-called European Economic Space (EES) with the Community. However, another neutral Efta member, Austria, has already lodged an EC membership application, which it will certainly pursue in earnest if the EC-Efta negotiations, due to begin next month, fail.

But Mr Holkeri left Brussels in no doubt of the difficulties posed by the Commission's demands that, in order to create and run the EES, Efta must strengthen its own institutions and acquire the same sort of supra-national decision-making and powers of enforcement that exist in the EC.

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Germans talk unity finance as DM100bn deficit looms

By David Marsh and David Goodhart in Bonn

MR THEO Waigel, West German Finance Minister, will hold talks in East Berlin today on financing German unification, amid signs that the overall budget deficit for a united Germany next year could top DM100bn (£36.1bn).

East and West German officials reached agreement at the weekend in Bonn on details of the formal treaty paving the way for introduction of the DMark to East Germany from the start of July.

According to figures circulating in the Finance Ministry, the total central German government budget deficit next year could be DM110bn, of which DM50bn would come from the federal republic and DM60bn from East Germany.

A ministry spokesman yesterday could not confirm the figures. He said that buoyant tax revenues this year, due to better than expected economic growth, would lower the overall deficit to below the most pessimistic expectations.

Also, accord has not been reached on spreading additional public sector deficits among central and regional governments, he said.

For economic and political reasons, the Bonn Government is playing down the impact of sharp expected increases in public sector deficits. Last year, the central government deficit fell to only DM19bn because of a sharp increase in tax revenues.

Mr Waigel and Chancellor Helmut Kohl have ruled out tax increases in coming years to finance unity. At his talks in East Berlin today with Mr Walter Romberg, East German Finance Minister, Mr Waigel is expected to repeat his refusal to improve further Bonn's commitment to fund East German social security and unemployment insurance.

Bonn is planning – partly to avoid frightening the financial markets – a special fund to cover the extra costs of unity after the merger of the two states' economic systems this summer. The accounts of this special fund, to be set up jointly with the West German federal states (*Länder*), will be kept separate from central government budget figures.

Mr Romberg said last week that East Germany was reckoning on a budget deficit of a maximum of DM70bn next year. This should not represent more than a third of total East German spending, he said.

A central point in forthcoming talks between Bonn and East Berlin will be the amount of tax and social security revenues to be raised directly from the East German population.

According to Mr Ernst-Moritz Lipp, chief economist at the Dresdner Bank, West German social security contributions will probably have to be raised by 1 per cent, bringing in an extra DM12bn next year, to help fund burdens on the German social insurance fund.

Mr Lipp puts the total additional costs for the whole of the West German public sector next year at DM53bn, caused by funding for the unemployment and pensions systems in East Germany as well as byspending on infrastructure and industry there.

This extra spending could be offset by DM10bn of cuts in the West German budget next year on such as border subsidies, Berlin and defence, he believes.

One for all and all for one: (from left) Presidents Landsbergis of Lithuania, Ruutel of Estonia and Gorbunovs of Latvia join hands

Baltic states meet to revive co-operation

By Christopher Bobinski, recently in Tallinn

THE THREE Baltic states reiterated their "irreversible" will to restore their countries' independence and agreed to co-ordinate policy towards Moscow, at a meeting in Tallinn, the Estonian capital, at the weekend.

The three presidents – Mr Vytautas Landsbergis of Lithuania, Mr Arnold Ruutel of Estonia and Mr Anatolij Gorbunovs of Latvia – met for the first time since they took their respective offices formally to renew a co-operation treaty, originally signed by the three countries in 1934. This re-establishes a joint Baltic Council whose aim is "to restore fully the national independence of all three Baltic states" and win places for them at the UN and at the Helsinki Conference on European security.

The meeting was held at the seat of the Estonian Government, a palace built soon after Tsar Peter the Great first won control of the territory for Russia in 1721, and has raised the spirit of the Baltic nationalists. It provides a promise of mutual help in case of further economic blockades, such as the one now being suffered by Lithuania.

The Latvians are hoping for talks on independence issues in Moscow this week, when they could now present a common Baltic position.

However, the Tallinn meeting still leaves each country with the problem of how to unravel its myriad economic and political links with Moscow.

European integration 'may harm Denmark'

By Hilary Barnes in Copenhagen

DENMARK'S economic problems will be aggravated by European integration unless measures are taken to correct structual deficiencies in the economy, according to the Organisation of Economic Co-operation and Development survey on the country, published today.

A GDP growth rate of 1.2 per cent this year, rising to 2 per cent in 1991, is forecast by the OECD, which predicts, however, that the recovery will be accompanied by a renewed increase in the country's chronic external account deficit.

Some progress was made during the 1980s in correcting long-standing problems: the government budget is in better shape, inflation has been lowered, and the current account deficit is smaller.

But the report is critical of failure to do better. If productivity per head over the past 25 years had increased in line with the OECD average, GDP would be 25 per cent greater than it is, the report estimates, attributing the poor performance in part to a rapid expansion of the public sector.

Other factors in the lacklustre growth performance are "high and persistent structural impediments, particularly in the labour market, low savings propensity" and lack of international competitiveness.

The problem of low saving, in parallel with more than a quarter of a century of current account deficits, will be aggravated by European economic integration, the report warns, Danish indirect taxes in general being significantly higher than in other EC countries.

Two important revenue raisers – a tax on real interest rates on pension and life insurance savings and an employers' social security tax raised on the same basis as value-added tax (now paid by importers and domestic producers, while exporters are exempt) – are in danger of falling foul of EC rules, says the report.

Ericcson, Siemens win German cellular contract

By Robert Taylor in Stockholm

ERICSSON, the Swedish telecommunications group, in partnership with the German company Siemens, has been awarded a DM350m (£126.3m) contract by Mannesmann Mobilfunk, of Düsseldorf, for the implementation of the digital mobile cellular system D2, it was announced yesterday.

This is a breakthrough for Ericsson into the lucrative German telecommunications market.

The system, due to start service at the end of 1992, will represent one of the largest wide-area cellular telecommunication networks in Europe.

The Swedish group also announced yesterday a $69m order for a mobile telephone system in Taiwan. This is one of Ericsson's largest orders in the cellular business.

Bush announces help corps for E Europe

By Peter Riddell, US Editor, in Washington

THE Bush administration is to sponsor a volunteer organisation, to be known as the Citizen Democracy Corps, to provide expertise and assistance for the emerging democracies of eastern Europe.

The US is also to extend trade credits and loan guarantees to Poland by the Export-Import Bank, from the present one-year basis to a term of five to seven years. This will not alter the allocation of funds to the bank.

Speaking in South Carolina, President George Bush also announced that the US is to send delegations to observe the imminent elections in Romania and Bulgaria, and that it will seek to broaden the mandate to the 35-country Conference on Security and Co-operation in Europe to seek a new consensus on free elections, political pluralism and the rule of law.

This will be pressed at a CSCE conference on human rights early next month.

Unveiling these initiatives, Mr Bush said the US wanted to support democratic change and market-oriented economic reform by enlisting US private sector and volunteer efforts. The administration has been criticised for not doing enough to help eastern Europe.

The proposed Citizen Democracy Corps will receive $300,000 (£180,000) in initial funds from the Agency for International Development, and will then be privately financed.

It will set up a centre and clearing house for US volunteer and private activity in eastern Europe, and work from the State Department under a presidential commission.

The corps is a private-sector version of the Peace Corps founded by President Kennedy in 1961 to send US volunteers to developing countries.

US textile industry warned off protection

By Nancy Dunne in Washington

MRS CARLA HILLS, the US Trade Representative, took the Bush administration's case for trade liberalisation into the opposition camp at the weekend, warning the politically potent US textile industry that its import protection was doomed.

In a major speech, timed to precede the meeting this week of the international textile negotiating group in Geneva, Mrs Hills directly confronted industry leaders.

Their insistence on continued protection could jeopardise the future of the Uruguay Round of negotiations on trade liberalisation, held under the aegis of the General Agreement on Tariffs and Trade (Gatt).

Opposition by the US domestic industry also threatens defeat in Congress for whatever reform package might emerge from the round.

"Persistent protection will not cure the problems faced by the textile industry: it merely transfers them from one administration to another," Mrs Hills said.

She said that the industry must become "fully integrated and competitive in the world trading order." The Representative sought, however, to reassure officials with promises of "a level playing-field which would eliminate the need for special rules for textiles."

The US is backing 10-year global quotas for textiles under Gatt, but Mrs Hills said she is keeping an open mind for other proposals. She will insist, even so, on "an effective transition system" to free trade in textiles.

She urged the negotiators this week to focus on:

- The deletion of the transition system;
- The products and countries to be covered;
- A mechanism to protect against surges of imports;
- Annual growth rates for quotas.

The US textile industry is supporting protectionist legislation in Congress, as it tends to do in election years. Such legislation might well pass Congress but would be vetoed by President George Bush.

Pretoria plan for minority rights criticised by ANC

By Patti Waldmeir in Johannesburg

THE South African Government has spelled out its negotiating position ahead of planned talks on the country's constitutional future, proposing a 12-point plan to protect minority rights.

The plan was immediately criticised by the African National Congress (ANC).

Mr Gerrit Viljoen, the minister charged with elaborating a post-apartheid constitution, told parliament that the National Party would seek to protect South Africa from the one-party rule which could result from "an unsophisticated majority vote".

Mr Viljoen said: "These minorities, because of their particular values and aspirations, should have a special voice in the new constitutional dispensation."

He gave few details of how such rights would be protected.

The statement appears to have annoyed the ANC, whose leaders met the Government 10 days ago for preliminary negotiations.

An ANC official said the reference to unsophisticated voters was arrogant. "Did sophisticated whites vote the Nationalists into power? ... Did sophisticated Germans vote for Hitler?" asked the unnamed official.

"The notion of "group" rights, rejected by the ANC, is likely to prove a big stumbling block in negotiations.

Mr Viljoen also stipulated the preservation of the free market system, regular elections, a bill of individual human rights which could not be arbitrarily abolished or amended, no expropriation of property without proper compensation, an independent judiciary and state support for racially separate schools.

There should be guarantees that "those who want to live in a specific community context through free association can do so without laws forcing people to do so", he said, and there should be state support for

Pretoria has made clear it opposes black majority rule and will seek a constitutional system offering protection for the white minority's rights.

racially-separate schools.

Mr Walter Sisulu, a senior ANC official, appeared conciliatory on the issue of residential areas and schools, saying the ANC believed people should have the right to live where they wished.

With regard to schools, he reiterated the ANC position that it recognised that cultural diversity might need to be protected, though protection based on race was not acceptable.

US seeks accommodation with Manila

Americans are under pressure from right and left to leave, reports Greg Hutchinson

TALKS ON the future of American military bases in the Philippines start today, with Manila's leverage severely reduced by the weakened authority of President Corazon Aquino since the December coup attempt and the increasing competition for US assistance from eastern Europe and Latin America.

Even so, foreign diplomats and analysts do not believe that the discussions, which could determine the pattern of US security arrangements in the Asia-Pacific region into the next century, will be easy for Washington, which wants to stay, given the right price.

There is pressure from left and right in the Philippines for the US to leave. Right-wing army dissidents, who have failed in six coup attempts against Mrs Aquino, accused Washington at the weekend of intervening in Philippine affairs. About 700 left-wing protestors demonstrated yesterday against the bases and another protest is planned for today at the US embassy.

Mrs Aquino said on television yesterday that the Philippines wanted to preserve friendly relations with the US, without indicating whether she thought the bases should stay.

The Philippines will have to be convinced it is in its interests to have the Americans remain at the gigantic Subic Bay Naval Station, Clark Air Base and four smaller communication facilities.

The talks are expected to be protracted, involving weighing the aid and economic spinoffs inherent in hosting the bases against Manila's wish to remove vestiges of the colonial era. They may not prove conclusive, despite the 1990 "deadline" for a termination notice. Both sides are protected by a clause under the current agreement which says Manila must give the Americans a year's notice of termination.

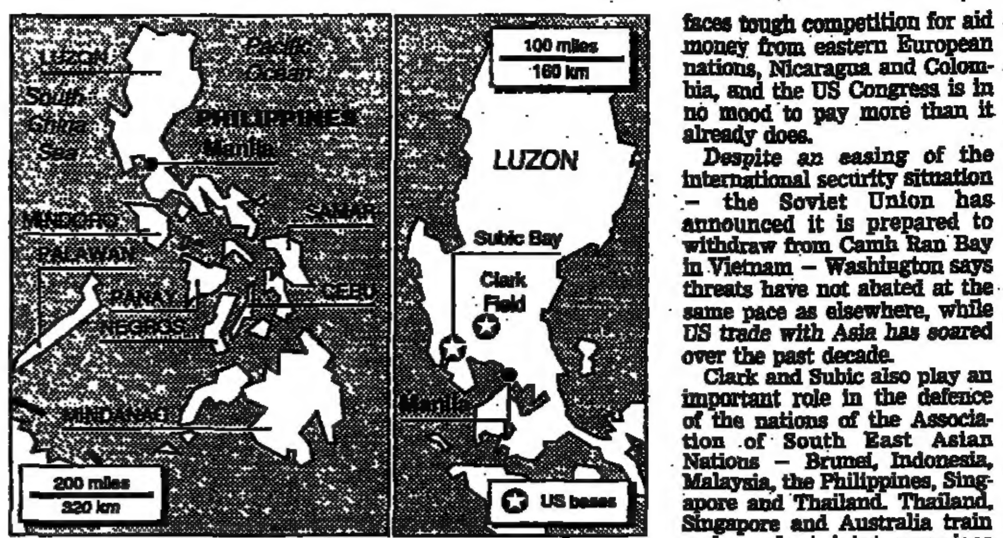
But something approximating the status quo is likely to prevail, particularly in light of the US role in turning the tide against the attempted December coup. At the request of Defence Secretary Fidel Ramos, two Phantom jets from Clark helped save Mrs Aquino by flying cover for government troops at a crucial moment.

Rising inflation, high balance of payments and budget deficits, lower growth and persistent investor nervousness following the aborted coup also make Manila's need for compensation for the bases all the more pressing.

The Philippines is an exception among the Asian countries hosting US bases in that it is paid for the US presence. Japan, conversely, pays Washington several billion dollars a year to host US facilities.

Under a 1988 review of the bases arrangement, Washington has agreed to pay the Philippines an annual $481m (£288.02m) although $96m is unpaid for the year to next September because Congress has failed to vote the money.

Mr Raul Manglapus, Foreign Secretary and chief Philippine negotiator, says the Americans' ability to meet their commitments will influence whether they are allowed to stay beyond September 1991, when the current lease expires.



The Philippine constitution requires any new bases arrangement to be governed by treaty, but the process whereby the Philippine executive can successfully negotiate a treaty acceptable to the legislature is daunting. The same applies to the US, where treaty approval also is a legislative function.

What further complicates matters is that the Philippines Senate must ratify any new treaty by a two-thirds majority. According to Senator Wigberto Tanada, a strong critic of the US bases, more than a third of the Senate remains opposed to the continued American presence. However, sudden policy shifts by Philippine politicians are commonplace.

The American delegation, led by Mr Richard Armitage, a skilled negotiator and a former Defence Department Assistant Secretary for East Asia, hopes the talks will quickly move into formal negotiations on a new agreement allowing the American military to remain beyond next year.

The bases employ 80,000 Filipinos. Compensation and spendings by 17,000 servicemen contribute 5-7 per cent of the gross national product.

The facilities help project US power into the South China Sea and Indian Ocean and as far as the Gulf, and inject about $1bn a year into the Philippines economy in aid and indirect spending.

The US wants a 10-12 year extension, although five years of unrestricted use, especially at Subic, the prize facility, may be acceptable.

But the Philippines now faces tough competition for aid money from eastern European nations, Nicaragua and Colombia, and the US Congress is in no mood to pay more than it already does.

Despite an easing of the international security situation – the Soviet Union has announced it is prepared to withdraw from Camh Ran Bay in Vietnam – Washington says threats have not abated at the same pace as elsewhere, while US trade with Asia has soared over the past decade.

Clark and Subic also play an important role in the defence of the nations of the Association of South East Asian Nations – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Thailand, Singapore and Australia train and conduct joint exercises with the US at Clark and Subic, the largest US foreign military facility in the Asia-Pacific region. The region as a whole, the Pentagon maintains, benefits from the American presence, which is said to ensure the free flow of trade through the Straits of Malacca, Sunda and Lombok.

Washington believes Clark, with a large bomber and fighter training area, and Subic, which services the Seventh Fleet and can accommodate any aircraft carrier, cannot be replicated in any other single country. But defence thinking of two years ago that they are vital and indispensable no longer holds.

If it had to pull out, the Pentagon would redeploy forces to Guam, Singapore, Japan and Hawaii, which together can absorb all the major functions of the Philippines bases. But this implies greater distance from south-east Asia.

Sen Wigberto Tanada, standing in front of a Communist Party symbol, waves a letter to Mrs Aquino demanding the removal of the US bases.

Mr Nicolas Platt, US ambassador to the Philippines, maintains that the US presence in the debt-burdened country of 60m people is highly desirable; and, unlike in Europe, there is no regional pressure for withdrawal.

"Given increasing trade relationships the [US] forward defence posture is still relevant. I think the nations of the region agree that the US presence here is a stabilising factor and they'd like us to remain here... despite the changes in Europe," Mr Platt says.

Boesky to face first cross-examination in arbitrageur's trial

By Roderick Oram in New York

MR Ivan Boesky, the convicted stock speculator on whose evidence the US Government has built its Wall Street investigations, is about to testify in public for the first time.

He will be the Government's star witness in the trial, starting today, of Mr John Mulheren, a 40-year-old arbitrageur alleged to have profited heavily by his personal and business relationship with Mr Boesky.

Two years ago, police stopped Mr Mulheren on his way to Mr Boesky's house with an Israeli assault rifle.

His lawyers said he was distraught because he was unable to take lithium, which normally controlled his manic depressive behaviour.

Mr Mulheren's lawyers are expected to attack Mr Boesky's credibility. Three and a half years ago Mr Boesky agreed to plead guilty to minor charges, pay $100m (£59.9m) in penalties, give evidence about other people and serve a short jail term, rather than face a full trial.

Mr Boesky's evidence has helped the Government bring cases against other Wall Street names; most notably Mr Michael Milken, the pioneer of junk bonds, recently pleaded guilty to minor charges and agreed to pay $600m in penalties. But Mr Boesky has never been subjected to cross-examination in court.

Mr Mulheren and his arbitrage firm, Jamie Securities, are alleged to have performed various illegal trading practices for Mr Boesky between 1985 and 1987, according to a 42-count indictment. If Mr Mulheren were found guilty on all charges, he could face 210 years in prison and $10.5m in fines. The trial will start with jury selection. It is likely to last about six weeks, with Mr Boesky testifying soon.

Other witnesses could include Mr Carl Icahn, a New York investor. He is not the subject of investigation, but is reported to have benefited by an investment in Gulf and Western in 1985 when, it is alleged, Mr Mulheren was manipulating the stock's price.

Mr Mulheren, who lifts weights with Bruce Springsteen, the popular music star who is his friend and neighbour, is seen on Wall Street as a maverick. Before he formed his own firm with the financial backing of prominent takeover experts, he was head of risk arbitrage at Merrill Lynch. Mr Donald Regan, former head of Merrill Lynch and former US Treasury Secretary, once wrote a testimonial for him when he was buying an apartment.

Known in equal measure for his generosity to children and charities, and for outbursts in his office, he is an avid gun collector. He used to let his hometown police try his guns at their practice range.

Collor in clash with military

By John Barham in Sao Paolo

BRAZIL'S President Fernando Collor de Mello ordered the arrest on Friday of a retired army general who said the president should shoot himself.

Gen Newton Cruz, one of Brazil's more controversial soldiers, told a newspaper "I cannot conceive as a statesman someone who says he has only one bullet. A statesman who has only one bullet should use it on his head."

Gen Cruz referred to one of Mr Collor's favourite figures of speech, in which he has only one bullet to kill the tiger of inflation.

A week earlier, Gen Pedro Luis de Araujo Braga, a senior army commander, attacked the president's purge of the National Intelligence Service in a public speech cleared by the Army Ministry.

Mr Collor replied by reminding the military of his constitutional role as commander-in-chief of the armed forces.

During last year's election campaign, Mr Collor promised to cut the armed forces' political powers and demilitarise the intelligence service. He appointed a 29-year-old civilian to head a new intelligence department loosely modelled on the US CIA.

The National Intelligence Service, created shortly after the 1964 military coup, had become one of the most powerful government agencies. Gen Cruz was the service's second in command until 1985.

SOME 250 Jewish graves in the northern city of Haifa were found daubed with anti-Israeli graffiti yesterday in an attack apparently inspired by the desecration of Jewish graves at Carpentras in southern France last week, Hugh Carnegy writes.

Slogans in Hebrew calling for Arabs to kill Jews, and carrying the name of Arab villages in Israel, were scrawled in two Haifa cemeteries. The slogan above, written in Hebrew, reads "Saddam Hussein burn Jews." Police carefully avoided discussing who was responsible, but called for calm as angry relatives expressed their outrage. Israeli politicians of all parties and local Arab leaders strongly condemned the incident.

Shamir to go ahead without Labour

By Hugh Carnegy in Jerusalem

MR YITZHAK SHAMIR, leader of Israel's hardline Likud party, intends to press ahead with plans to establish a new government without the Labour Party, which favours concessions for peace, a senior aide said yesterday.

Such a government, based on the support of small religious and far-right parties, would be committed to extending Jewish settlement in the occupied Arab territories, a policy the US strongly opposes, Mr Yossi Achimeir, head of Mr Shamir's private office, said in an interview. But it would also be committed to a peace plan for the occupied territories adopted by the Likud-Labour coalition a year ago today.

Mr Achimeir said a renewed broad coalition was "out of the question" for the moment, although Mr Shamir still regarded it as an option in the future.

Mr Shamir's way forward is not without obstacles, however. Remaining difficulties in reconciling Likud and its supporting partners, especially over cabinet assignments, may force him to seek more time from the president beyond an initial deadline on Friday.

Mr Achimeir said he thought recent sharp differences with the US would be smoothed out once a new government was in place.

He said absorbing immigration was the main problem for any new government.

NEWS IN BRIEF

Yemen military move brings merger closer

NORTH and South Yemen moved closer to a merger at the weekend with an announcement that the armed forces of the two countries had been technically dissolved, before a unity declaration expected by the end of this month, Victor Mallet, Middle East Correspondent, reports.

Yemeni politicians have pressed ahead with plans to merge into the Arabian peninsula's most populous nation, despite unresolved disputes about a new constitution and the opposition of neighbouring Saudi Arabia.

President Ali Abdullah Saleh of the conservative state of North Yemen – the man who would be the president of a united Yemen – was quoted by Sanaa Radio as saying that there was no reason for the existence of two sets of armed forces. "Both have been dissolved within the framework of the united state," the radio quoted him as saying.

Hyundai strike backed

Workers at Hyundai Motor Company, South Korea's largest car maker, voted on Saturday to strike in support of claims for wage increases and improved working conditions, John Ridding reports from Seoul.

The car plant, which can produce 830,000 vehicles a year, reopened only last week after a strike held in sympathy with workers at Hyundai Heavy Industries, the shipbuilding subsidiary of the Hyundai Group.

The announcement of a strike at HMC follows a breakdown of protracted negotiations between union leaders and management. Unions are demanding wage increases of about 18 per cent, but the company insists on less than 6 per cent. The unions are also demanding want a reduction in working hours.

The strike at HMC will be the first big strike in South Korea this year in which wage demands have been the principal issue. Trade unions have generally accepted single-figure wage increases, as a result of strong pressure from the Government and management, which blame the high wage increases awarded over the past three years for a sharp slowdown in economic growth and exports.

Madagascar coup bid kills three

Three people were killed and 20 injured in a failed coup attempt on the Indian Ocean island of Madagascar early yesterday, hospital officials said, Reuter reports from Antananarivo.

A small group of rebels seized Radio Madagascar saying they wanted to end 15 years of dictatorship by President Didier Ratsiraka and his family who had "impoverished" the country.

A commando team armed with tear gas stormed the radio station and subdued the group, diplomats said. Police and troops patrolled the capital, Antananarivo, which was quiet. Units of a special anti-riot squad, normally quartered 100 km (60 miles) away, were on the streets, residents said.

Olive branch from Saddam

Iraq's President Saddam Hussein has proposed a face-to-face meeting with Iran's President Ali Akbar Hashemi Rafsanjani to break the deadlock which followed the Gulf War, a Tehran newspaper said, Reuter reports from Nicosia.

The Tehran Times, an English-language newspaper close to Mr Rafsanjani, reported the invitation to a summit, saying Iraq would soon have a chance to show Mr Javier Pérez de Cuéllar, the UN Secretary General, who meets Iraq's Foreign Minister, Mr Tareq Aziz, in Rome today, whether it means what it says.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Mar.'90	Feb.'90	Jan.'90	Mar.'89
W.Germany 000's	1,891	1,928	1,959	2,040
%	7.2	7.4	7.5	7.9
USA 000's	6,770	6,495	6,594	6,198
%	5.2	5.3	5.3	5.0
UK 000's	1,647	1,676	1,687	1,960
%	5.8	5.9	5.6	6.9
Japan 000's	1,260	1,360	1,360	1,460
%	2.0	2.1	2.2	2.3

	Feb.'90	Jan.'90	Dec.'89	Feb.'89
France 000's	2,552	2,601	2,586	2,597
%	9.6	9.7	9.7	10.3
Italy 000's	3,950	3,925	3,905	3,974
%	11.1	11.0	11.0	11.0
Belgium 000's	399	413	416	429
%	9.1	9.4	9.4	9.8

	Jan.'90	Dec.'89	Nov.'89	Jan.'89
Netherlands 000's	368	373	365	428
%	9.1	9.1	9.0	10.4

Source: (except US, UK, Japan) Eurostat

Technical standards machinery grinds exceeding slow

The job of hammering out the details has hardly begun, writes Lucy Kellaway in Brussels

IF YOU utter the words "technical standards" you lose your audience. This sad fact has been troubling the European Commission of late: unless it can make people sit up and take notice, its 1992 deadline will be missed by a mile.

The removal of technical barriers to trade is ranked by companies as the most important part of the single market, and the received wisdom is that progress is most encouraging. But while 80 per cent of the political work on the broad directives designed to remove technical barriers has been done, the job of hammering out details of the standards themselves has barely begun. As things stand there is no question of getting the necessary 3,000 standards ready by the end of 1992.

The problem was supposed to have been solved by the so-called new approach adopted in the mid-1980s, when the Commission dropped its previous efforts to harmonise everything from toilet paper holders to golden syrup. It was agreed instead that countries would simply recognise each others' standards. With one stroke thousands of pending directives were swept aside.

Mutual recognition did not work where safety or health were involved. In these areas the Commission made a second breakthrough by separating the political work on setting minimum safety levels (covered by directives) from the more fiddly job of devising the technical means to meet them which was to be done by private sector standards bodies.

The new approach may have cleared the backlog at the level of the Council of Ministers, but only at the cost of shifting it further down the line to the European Committee for Standardisation (CEN). Agreeing the machine safety directive, which squeezed half the engineering sector into a set of rules covering just a few pages, was relatively straightforward.

However, agreeing the several hundred standards needed to implement the directive is proving a formidable task.

A bottleneck at the standard-setting level will not prevent the directives taking effect, but it could remove many of the advantages for businesses. The standards are voluntary, so that manufacturers can choose to take other routes to the chosen end. But there are bound to be serious costs associated with this.

The beauty of the European standard is its simplicity. A manufacturer who has built a product in accordance with the standard need only attach his own mark showing it has been built that way before selling it anywhere in the EC. Those choosing an alternative approach will need to get it certified, which could well prove costly and time-consuming, and at present could involve obtaining clearance from 12 standards bodies.

Officials now admit that no thought went into the structure or the workload of the standards bodies when the new approach was drawn up. "Until 1985, we were obliged not to work," says Mr Evangelos Vardakas, CEN's secretary general. "Everything we started work on, the Commission would tell us not to, as it was preparing a directive. Now we are being asked to do in three years everything that has not been done in 15."

Since Mr Vardakas took over in 1984, his staff have increased from just nine to 70, but they are still stretched. Their job is to co-ordinate the work of some 250 technical committees, which together are spreading their efforts over 2,500 pending standards. On top of a mass of technical problems are ones connected with the new approach itself. For instance, should ventilation equipment comply with the machinery directive, the construction products directive, or both?

Though member states are giving standards a slightly higher priority, Brussels fears their commitment is still too weak. "Without some change in the system we might as well forget the 1992 deadline," says a Commission official. "We must address ourselves to industry and to governments and convince them of the importance of standardisation. At the moment companies are leaving standards to their technical divisions, and do not seem to realise that they stand to gain by being more actively involved."

The Commission believes the structure of the standards-making committees, which are run as clubs of national bodies, is flawed. Not only are national bodies keen to defend their own interests, but there is no means of putting pressure on them to hurry up. At present a standard needs to go through endless committee meetings, and even after it is finally agreed at the European level, it has to be transposed into 12 identical national standards. Just as worrying, the new emphasis on European standards seems to have done nothing to suppress the appetite for purely national standards, which are still being written at 10 times the rate of European ones.

Among the Commission's options is a radical plan to reduce the roles of the national standards bodies to a purely local function. The aim would be to give industries more authority to work out standards for themselves. There would then be a fixed set of rules for translating these into approved European standards.

Another option would be to make European standards directly applicable, side-stepping the current need to rewrite them into the standards of national bodies. National bodies would be left with standards which particularly concerned them: the UK might decide it wanted a cricket bat standard, for instance. But such proposals would be fiercely resisted by the proudly independent national organisations, which earn large sums from selling European standards.

Some experts also doubt whether now is the time to start altering the way standards are drawn up. The British Government and the standard-setters themselves argue that any such change would risk slowing progress still further. They would prefer any changes to be postponed at least until after 1993. Some question the Commission's motives in raising the matter now. They say its proposed green paper is a face-saving device, intended to deflect blame for the backlog.

Meanwhile, progress on testing and certification is moving even more slowly, and may prove a still greater problem than the standards themselves. There is little point in reaching general agreement on safety levels if each member state tests products differently. Moreover, having to satisfy 12 different testing bodies would undermine the whole purpose of 1992.

Testing and certification were first recognised as a problem more than 20 years ago, but it was only last month that an agreement between member states was signed. This agreement, which establishes a European Organisation of Testing and Certification, is the first step on a long road which should lead eventually to mutual recognition of testing procedures.

However, there are serious problems to be overcome. The challenge is to develop a European mark of quality which everyone trusts – and that is not something that can simply be legislated into being. "There is no moment when we will say Eureka! we have harmonised testing in Europe. It will happen slowly, and probably will not be finished until the next century," says an EC official.

Meanwhile, there are the vested interests of the certification bodies to be taken into account, as well as the differing requirements of member states. Indeed, there is no certainty that a product which is certified by one national body as meeting the required standards will satisfy bodies elsewhere in the EC.

That makes the standards task all the more urgent. As one official put it: "The shift towards European standards is happening anyway, but if we do not organise and plan it, we will watch the benefits of the single market slip away."

UK NEWS

Treasury tells ministers to curb expenditure claims

By Philip Stephens, Political Editor

THE TREASURY is warning spending ministers that it will be forced to increase taxes in next year's Budget unless they scale back substantially bids which would increase their spending by around £15bn next year.

Whitehall departments are in the process of finalising their demands for extra funds in the 1991/1992 financial year before submitting them at the end of this month. The Treasury's warning is designed to pre-empt some of those bids and represents in part the traditional "sparring" which precedes annual spending negotiations.

It reflects also, however, real concern that excessive spending could derail the Government's strategy of forcing down inflation and interest rates in the run-up to the general election due by mid-1992.

The need to defuse the impact of the poll tax and attempts by departments to offset higher inflation means that the bids will be around three times more than is available in the Treasury's contingency reserve for 1991/92. That £6bn reserve has been reduced already by £1bn by new spending commitments.

Demands for more cash from the Departments of the Environment, Health, Social Security and Transport are alone expected to amount to well over £10bn. Mr Norman Lamont, the Chief Secretary to the Treasury, will also face further large bids for higher spending on education and on law and order.

The Treasury believes that some of the demands are irresistible. It is resigned to providing billions of pounds to cut the poll tax, to restore real growth in health spending and to pay for the higher social security benefits resulting from the surge in inflation.

It is privately acknowledged in Whitehall that the £192bn target for departmental spending in the 1991/92 financial year which begins next April is no longer realistic.

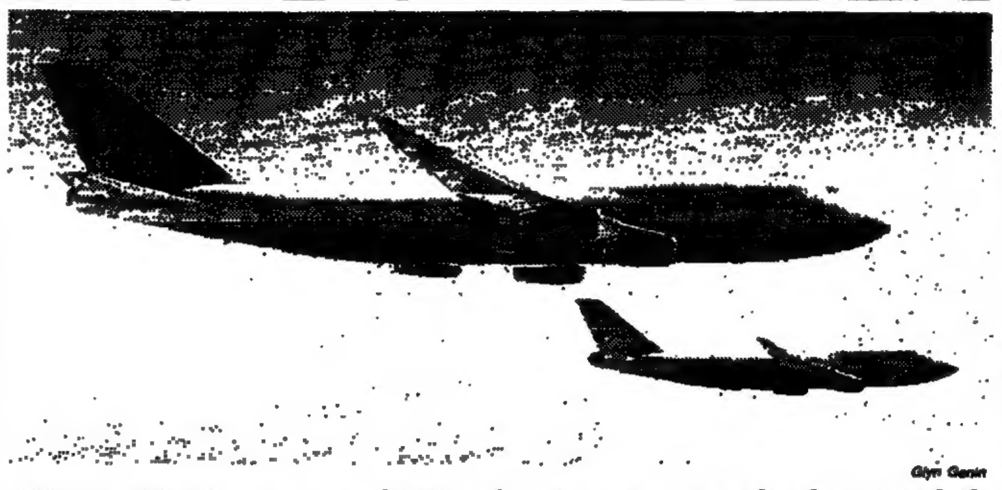
Some overshoot can be accommodated because the rise in inflation will push up tax revenues as well as spending demands. The official estimate at the time of the Budget of corporate tax receipts is also believed to have been deliberately cautious.

The scale of the bids, however, has convinced the Treasury that it will have to take drastic action to persuade spending ministers to curb their ambitions.

Mr Lamont said yesterday that hopes of tax cuts before the next general election were already in doubt. He will be telling colleagues privately that the choice may well be between higher spending and tax increases.

The Treasury is seeking savings in several areas, including defence and employment training. It is also determined that child benefit should be frozen for the third successive year despite the opposition that will create among the Government's own supporters.

Mr Lamont acknowledged, however, that the so-called "peace dividend" resulting from the easing of East/West tensions will take time to materialise.



Glyn Genin

BRITISH AIRWAYS is to create 1,200 jobs in South Wales by moving the engineering maintenance base for its fleet of Boeing 747 Jumbo jets to Cardiff-Wales Airport, writes Anthony Moreton.

The £80m scheme is comparable in importance for the Welsh economy to the arrival last year of Bosch, the West German motor electronics manufacturer, and Toyota's engine plant. The decision will be a blow for Liverpool, the other contender, which had hoped to benefit. Much of BA's maintenance work on its Jumbo fleet is undertaken at Heathrow Airport, London.

Britain to offer Czechoslovakia advice on unemployment issues

By John Gapper in Prague

THE FIRST package of British Government employment assistance to an eastern European country to aid restructuring following the end of Communist rule is to be offered in Prague by Mr Michael Howard, Employment Secretary.

Mr Howard is to agree a package under the Government's £75m "Know How" initiative to help new east European governments. The measures have been devised in the expectation of a sharp rise in Czech unemployment.

He said yesterday that the initiative was "the first concrete piece of technical assistance offered by a Western government," for which Britain would draw on its experience of economic restructuring in the 1980s.

The British Government is to offer the Czechs advice on developing employment services including counselling and placement of the unemployed and training and reskilling programmes for redundant workers.

It will also advise on ways of cushioning the effects of the anticipated contraction of the steel and coal industries, which is expected to help raise unemployment above 10 per cent of the 8m workforce.

Mr Howard is to agree the package today with Mr Petr Miller, the Czech Minister of Labour. The British Government will not be offering direct financial aid for employment assistance, but confining itself to advice.

Michael Howard: 'Know How' initiative on offer

He said that Czechoslovakia's likely problems with economic restructuring were similar to those faced by the Thatcher Government in Britain following the 1981 recession and the contraction of heavy industries.

The Czech Government, which in June faces the first free elections in the country since 1946, is planning economic reforms to cut the country's reliance on heavy industry and build the under-developed service sector.

Mr Howard said there was a parallel in the changes which took place in towns such as Corby, Northamptonshire following the cutbacks in the British steel industry. The Czech Government faced similar "hidden unemployment."

There is a debate within the Czech Government at the moment about the pace of economic changes, although it is widely accepted that the current structural unemployment rate of about 2 per cent will have to rise.

Following the signing of the agreement today a team of civil servants from the Czech federal government and Czech and Slovak ministries will visit Britain to study British training arrangements and Government training schemes.

The British Government's Employment Service will also be offering advice on programmes of help for the unemployed and the British experience of setting up and running Jobclubs for the long-term unemployed to seek new work.

Building industry forecast gloomy as recession 'deepens'

By Andrew Taylor, Construction Correspondent

THE RECESSION in the British building industry has come earlier, will last longer and be deeper than previously expected according to a survey of 600 building companies published today.

The survey by the Building Employers Confederation comes amid warnings that some small contractors may be in jeopardy as a result of a rise in property developers going into receivership.

Mr Christopher Morris, joint receiver at Rush & Tompkins the failed commercial developer and contractor which owes creditors tens of millions of pounds, warned last week that some small subcontractors could themselves be forced into receivership if bills could not be paid.

He said: "I am not saying at this stage that trade creditors will get nothing but I am not sanguine about their position."

Mr Bernard Cripps, managing director of Pearce Construction Group, a medium sized contractor working mainly in southern England said: "The industry must be concerned about the possible knock-on effect of property companies going bust.

"My company now asks subcontractors who else they are working for before we award a contract. If any of their other clients are considered vulnerable they do not get the work."

The latest quarterly workload survey published by the Builders Employers Confederation shows only 39 per cent of companies are now working at full, or almost full, capacity. This compares with 71 per cent a year ago.

The confederation, with 9,000 members and a combined annual turnover of more than £30bn, is the largest construction industry trade association.

Its latest survey, conducted in March, is one of the most pessimistic for almost a decade. It warns that construction output, which has risen every year since 1981, could fall by between 5 per cent and 6 per cent this year. Previously it had forecast that output would fall by 3 per cent in 1990.

Mr Peter Rainbird, the confederation's chairman, said: "The prospect of continuing high interest rates and mortgage rates has undermined the building boom of the late 1980s."

He said inquiries for work had fallen for the third consecutive quarter as the recession in house building has spread to other areas of contracting.

British Gas changes management structure

By DavidThomas, Resources Editor

THE MOST far-reaching changes in British Gas's management structure for 20 years are due to be announced today in an attempt to give much greater authority to the company's local managers.

The changes reflect the top management's belief that Europe's largest gas utility must make itself more responsive to customers in the face of increased competition injected into the energy sector by the Government.

British Gas's re-organisation follows sweeping management re-structurings recently announced by other large companies such as British Petroleum and British Telecom.

British Gas intends to appoint 94 general managers to run its local districts, the first time the company has given one person executive authority over local operations.

The new district general managers are intended to be the visible face of the company among customers. They will be responsible for districts which, on average, will have 250,000 customers, employ 500-700 staff and have an annual turnover of about £80m.

The district managers will be set targets covering standard of service, cost reduction and marketing, and may in time be paid on a performance-related basis. However, districts cannot be full profit centres, as gas prices are set nationally.

Until now, British Gas's districts have had functional managers responsible for activities like marketing and engineering who have reported to area or regional tiers of management above them. In future, functional managers will report to district general managers.

British Gas also intends to appoint 27 operational directors to its regional organisations who will oversee two or three districts. It will sweep away the area tier in regions where it still exists.

A utility comes out of its shell, Page 17

UK NEWS

Heseltine tries to end leadership rumours

By Philip Stephens, Political Editor

MR Michael Heseltine yesterday sought to end speculation that he might challenge Mrs Margaret Thatcher but acknowledged that he still harboured ambitions for the Conservative Party leadership once she stepped down.

The former Defence Secretary's insistence in a television interview that it was time to halt the speculation came after Mrs Thatcher repeated at the weekend her determination to lead the Government to a fourth general election victory.

In an assessment of her own and of the Government's position, she told the Scottish Conservative Party conference in Aberdeen that this month's local elections had signalled the start of the recovery that would ensure a win.

She castigated the "defeatism of faint hearts" in her party and pledged a continuation of the radicalism that had given her three election successes.

At the same time she indicated that the thrust of the Government's attack on the Labour Party would concentrate on the opposition's economic strategy. The slogan used in the local elections – Conservative councils cost you less, Labour councils cost you more – is to provide the basis for a constant campaign against Labour.

Mrs Thatcher admitted that the Government – still trailing significantly in opinion polls – had to win back the working and lower middle class voters who had ensured its victories in 1983 and 1987.

Her speech, which won a warm if not ecstatic welcome, aimed also to dispel any suggestion that she might stand down before the next election and to calm the nerves of the party faithful.

Although many senior ministers are privately far less sanguine about the political outlook, they share her confidence that the threat from Mr Heseltine has receded.

Yesterday Mr Heseltine displayed considerable irritation during a BBC interview when he was asked to give categorical assurances about his intentions.

He insisted that his oft-repeated phrase that he could not "foresee the circumstances" in which he would mount a challenge made the situation perfectly clear. He also reaffirmed his expectation that the Conservatives would win the next election under Mrs Thatcher's leadership.

● Colleagues of Mr Norman Tebbit, the former Conservative Party chairman, believe that he may decide to stand down as MP for Chingford at the next general election.

He announced less than two months ago that he might be a candidate in a future leadership contest, but the failure of his rebellion against the Government's legislation on Hong Kong was seen as undercutting decisively his influence at Westminster.

Ashley Ashwood

Michael Heseltine: irritation over leadership question

MPs want state cash for tunnel link, study says

NEARLY two thirds of MPs want some form of public investment in the Channel tunnel, a survey on behalf of the London Borough of Southwark shows.

The survey, based on interviews with 100 MPs, shows 49 per cent of Tories and 86 per cent of Labour MPs want repeal or amendment of the section of the Channel Tunnel Act prohibiting use of public money.

The Government, however, continues to insist that the project must be financed entirely by private funds.

A private bill to authorise building of the high-speed rail link across Kent from London to the tunnel is due before the Commons in the autumn.

The survey, carried out by Connect Public Affairs, makes clear that the Government might face growing pressure to reconsider its position. Although 75 per cent of Tories were satisfied with the Government's handling of the tunnel project, some 72 per cent of MPs questioned were dissatisfied with Eurotunnel and 86 per cent were dissatisfied with British Rail.

Coopers' team considers poll tax options

By Richard Evans

AN INTENSIVE research project into the feasibility and costs of alternatives to the community charge, or poll tax, has been launched by Coopers & Lybrand Deloitte, the management consultants, for the independent Joseph Rowntree Memorial Trust.

Alternative schemes include several forms of local income or property tax, a reformed community charge, a greater reliance on charging for services, or combinations of various revenue-raising methods.

The Government appears totally committed to the principle of the poll tax, particularly after the crucial successes in the London boroughs of Westminster and Wandsworth in the local elections on May 3, but an independent analysis of alternatives is likely to generate a great deal of interest.

The research team is led by Mr Guy Hollis, who heads Coopers' local-government consultancy practice in the UK, and includes Sir Christopher Foster, a senior director of Coopers; Mr Tony Travers, director of research of the Greater London group at the London School of Economics; Mrs Rita Hale, head of the local government division of the Chartered Institute of Public Finance and Accountancy; and Mr Richard Jackman, an economist who specialises in public funding issues.

The team will examine the extent to which alternative schemes could provide a source of revenue that would allow local authorities freedom in designing their own policies, and the extent to which schemes would be administratively feasible.

Also examined will be the practicality of enforcing alternative schemes, their relation to the central-government grant system and their effect on the distribution of income.

The project will include a comparative study of local taxation in other European countries. It will be completed in the autumn and a report published in October.

Lucas denies Iran Air contract link to hostages

By Lynton McLain

LUCAS AEROSPACE, one of Britain's biggest defence contractors, has been invited by Iran to tender for a contract to overhaul the US-made engines on two Boeing 747 jumbo jets belonging to Iran Air, the Iranian airline.

Lucas Industries, the parent company, said yesterday it would seek the approval of the UK and US Governments before submitting a tender. That is necessary because the engines were made by Pratt & Whitney of the US, while UK government approval would be needed because of Lucas's defence interests.

Lucas denied knowledge of a link between the potential contract and the possible release of Western hostages in Lebanon. The Foreign Office also denied knowing of any link.

Lucas Aerospace makes high-technology equipment, including jet engine starting systems for civil and military aircraft. Lucas Industries said yesterday that the subsidiary had been approached by an "independent, UK-based consultant," acting for Iran to tender for the contract. The consultant was "Lucas Industries' channel to Iran and would not be named, for commercial reasons."

The company said: "Other people have established a link between the potential contract and the Western hostages, but we have not linked the contract to the hostages.

"The basis of the contract, if it goes through, is to supply Lucas Aerospace parts and components and those from other manufacturers and to oversee, as prime contractor, their fitting in the overhaul of the aircraft engines." The company had been deciding since January whether to tender for the contract.

NEWS IN BRIEF

Chief whip Foster to be challenged

LABOUR'S transport spokesman Mr Peter Snape declared his intention to stand against the party's chief whip Mr Derek Foster in elections for the post this autumn.

Mr Foster has faced criticism over Labour's performance during the recent debate on the issuing of passports to Hong Kong residents. Many Tories rebelled, but the Government avoided defeat because numerous Labour MPs were absent.

Mr Foster has fought off election challenges in each of the past two years.

Cancer dietary study

PEOPLE in the south-east, south-west, Wales and the Midlands are much more likely to identify dietary changes as a means of preventing cancer than people in the north of the country, according to a poll carried out by NOP for BBC Radio 2.

The research, conducted for a Radio 2 programme on social issues, supports Edwina Currie's remarks, when she was junior Minister of Health, about an unwholesome northern diet.

The poll also shows that Britons are often reluctant to make simple changes to their lives, such as giving up smoking and changing their eating habits, to reduce risks of getting cancer.

NHS helicopter

A NATIONAL Health Service-funded helicopter ambulance service for Scotland's remote Highland areas has been given the go-ahead. The first such NHS scheme in the country, it was one of more than £7m worth of health projects announced by Scottish Health Minister Mr Michael Forsyth.

Exhibition coup

GLASGOW, celebrating its year as European City of Culture, is to be the only European venue for the unique Treasures of The Holy Land exhibition from the Israel Museum in Jerusalem. It will feature gold jewellery, copper items from the Judean Desert, ornaments and household items.

Tynwald to decide on SIB pay-out

By Sue Stuart

THE ISLE of Man Government will decide tomorrow whether to make an ex gratia payment to former depositors who suffered losses in the £42m collapse of the Savings and Investment Bank.

Pressure has mounted for such a gesture since the collapse last month on the island of the criminal trial of the owner and seven former officials and agents of the bank.

Mr Thomas Field Fisher QC, acting deemster (judge), abandoned the trial because of the unjustifiable delay in bringing the prosecution, which in some cases was 13 years after the event listed in the charges. Mr Field Fisher hinted very strongly that the Manx Government should compensate the banks' depositors with the £10m set aside to cover the estimated cost of the trial.

The Savings and Investment Bank crashed in the Isle of Man in 1982 with £42m debts and around 3,000 creditors, many of whom were small depositors who lost their life savings.

Depositors have pursued civil action against the Manx Government for years, claiming it was negligent and in breach of its duty of care.

Last month that action ended when the Privy Council, the final court of appeal for the island, ruled that those being sued did not owe a duty of care.

During the preliminary hearing of the criminal trial, lawyers quoted from two hitherto secret reports – one on banking supervision on the Isle of Man by two Bank of England officials, and the other from the court-appointed inspectors who investigated the collapse.

The Government published the Bank of England report last week and has applied to the court for release of the inspectors' report. When this intention was announced, Mr Miles Walker, the Manx Chief Minister, said he would make a statement about ex-gratia payments to depositors at the next sitting of Tynwald, the Manx parliament, to be held tomorrow.

Mr Ken Potts, of the depositors action group, said a settlement of £5m would meet claims by smaller depositors. The bank's liquidators expect soon to make a 15p-in-the-pound payment to creditors.

Lords told of handicap to engineering innovation

SERIOUS deficiencies exist in the UK's ability to generate enough manufacturing innovation, the Engineering Employers Federation has warned.

In evidence submitted to the House of Lords select committee on science and technology, the federation reports: "Innovation in manufacturing industries is an essential driving force in economic development."

The committee calls for an early inquiry into allegations that "short-termism" in the financial markets inhibits innovation. The term describes a pursuit of short-term profit that disregards long-term advantage.

The federation says many successful UK engineering firms do not regard the financial environment as an obstacle to innovation.

"There are others, including some successful firms, who do perceive an obstacle in the 'short-termism' of the financial environment in the UK.

"Financial investors in Germany and Japan are said to be more prepared to accept technological and business risk and more prepared to invest for many years without current returns than investors in the UK or the United States.

"If the allegations are true, then this is a major problem which must be resolved before the UK economy can fully prosper in the post-North Sea oil conditions of the 1990s.

The federation urges an "early and penetrating re-examination" of its frequent and persistent allegations that short-termism in financial markets inhibits innovation.

UK NEWS

Productivity in engineering will fall, study says

By Charles Leadbeater, Industrial Editor

GROWTH and productivity in the engineering industry will fall sharply in the next year, according to a report on the long-term prospects for the industry, published today.

The report, by Cambridge Econometrics, the economic forecasting group, says growth will be significantly lower than during the investment and consumer boom of the past two years.

However, it predicts that continued export growth will enable the industry to outperform other sectors.

The report, on prospects for the industry up to the turn of the century, predicts a significant improvement in the trade balance in mechanical engineering, electronics, electrical engineering and instruments.

By the mid 1990s, those industries are projected to deliver an annual trade surplus of more than £3bn. The industry as a whole is expected to increase exports by 8.4 per cent a year over the course of the decade, compared with 4.5 per cent growth in imports.

The report says most of the industries have become more internationally competitive in the 1980s through rationalisation of inefficient capacity, the introduction of new working practices and product development strategies.

However, several sectors are open to import penetration because they have confined their strategies to competing in specialist niche markets rather than in volume markets.

In many sectors, such as ball bearings and consumer electronics, output from Britain is entirely from foreign-owned plants.

The report warns that the sectors' performance will depend on continued improvements in competitiveness which will be delivered only by higher investment in research and development, new equipment and staff training.

It says mechanical engineering in particular may contract as a result of the restructuring prompted by the completion of the single European market programme, and all sectors will be under more pressure after the UK joins the exchange-rate mechanism of the European Monetary System.

- Mechanical engineering output should rise by about 3 per cent in 1990, down from 8.5 per cent in 1988, largely because investment demand is projected to fall from a peak of 18.2 per cent two years ago to 1.4 per cent this year.

Employment in the industry, which showed a small increase in the past 18 months, is expected to remain almost stationary.

Profit margins will be squeezed but in the short term the sector should return to a trade surplus of just over £500m.

- Electronics output is projected to rise by 5.4 per cent in the next year, in contrast to growth rates of 11 per cent and 9 per cent in the previous two years. Employment will stabilise, productivity growth rates will fall and profit margins will be cut.

The growth of the industry's trade deficit should be slowed, with exports growing at 10.8 per cent this year against an 8.8 per cent growth in imports.

- Electrical engineering will suffer worse than most other engineering sectors from the slowdown in the UK. Output is forecast as growing by only 2.5 per cent and employment will fall by 1.9 per cent.

However the sector's trade deficit should contract sharply, with continuing export growth and lower imports.

A trade deficit of £1.25bn this year should be reduced to £500m in 1995 and a surplus of about £300m in the year 2,000.

- Instrument engineering output is forecast to rise by about 4.7 per cent, compared with the 4 per cent recorded in 1989. Although export growth will fall from 21 per cent in 1988 to 5.8 per cent this year, import growth will slow more markedly from 27 per cent two years ago to 3.9 per cent this year.

The UK Engineering Industries in the 1990s. Cambridge Econometrics, 21 St Andrew's Street, Cambridge CB2 3AX. £850.

Virgin sells 10% stake to Saison of Japan

By Andrew Hill

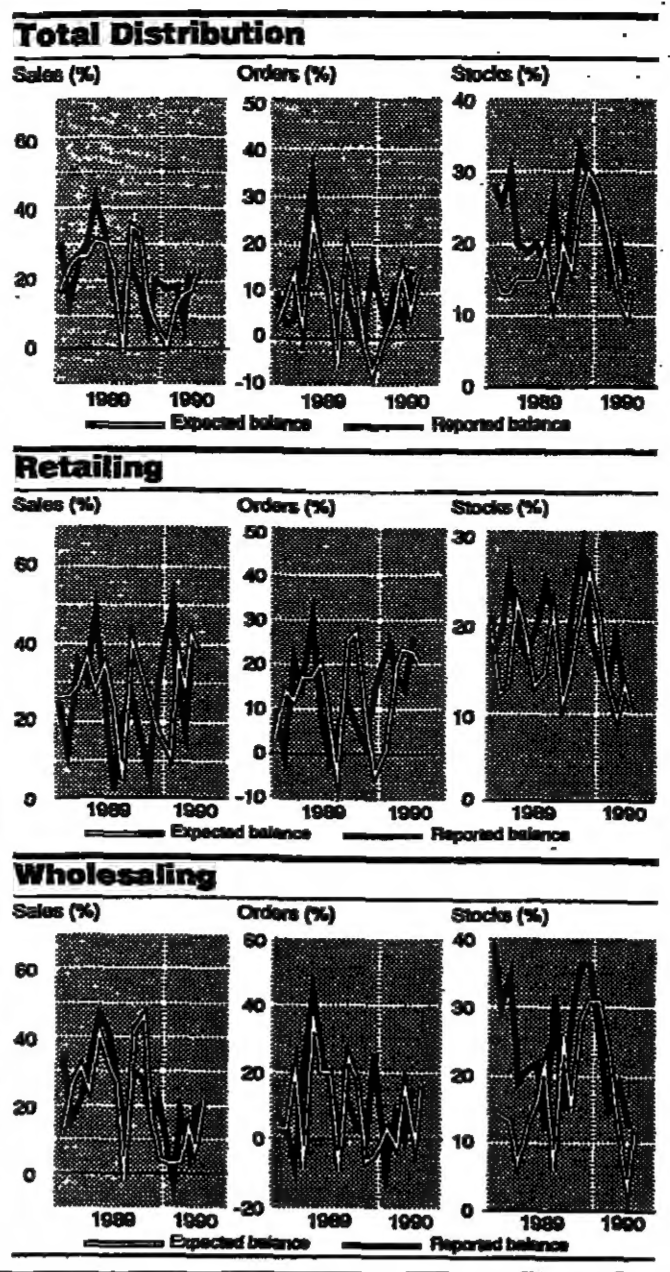
SEIBU Saison International, part of the Japanese Saison conglomerate that bought the Intercontinental hotel chain in 1988, has acquired 10 per cent of Mr Richard Branson's Virgin Atlantic airline and travel group in exchange for a £36m injection of equity and convertible loan capital.

The Japanese company has taken the stake in Virgin Atlantic's parent company, Voyager Travel Holdings. It is the latest in a series of joint ventures between Virgin and the Japanese. Last October, a subsidiary of Fujisankei Communications Group, a Japanese media company, agreed to buy a 25 per cent shareholding in Virgin Music, the record company, for $150m (£89m).

The agreement with Saison might herald other business deals between the Japanese group and Virgin Atlantic, which has been trying to increase its flights between London and Tokyo.

The capital raised by the deal will be used to fund the expansion of the Virgin route network, and Mr Branson said Saison's hotel interests would provide important support for those plans. Future destinations would include Boston, Singapore, Hong Kong and Australia, he added.

Saison, which also has retailing, travel, and leisure interests, owns Intercontinental hotels with Scandinavian Airlines System and has $25bn annual turnover.



CBI/FT DISTRIBUTIVE TRADE SURVEY

Retail and wholesale growth up in April but motors worse

By Michael Prowse

SALES growth in retailing and wholesaling picked up in April, according to the latest Confederation of British Industry/Financial Times distributive trade survey.

In contrast, trading conditions are deteriorating in the already depressed motor trade, the survey indicates. Sales of durable household goods are also down compared with April a year ago.

The survey polled 485 companies in the retail, wholesale and motor trade sectors between April 16 and May 3. It suggests that the distributive market remains quite strong. Of companies surveyed, 50 per cent reported higher sales than a year earlier, 21 per cent said sales were unchanged and 29 per cent said sales were down.

The 21 per cent positive balance – an indicator of the trend – was the best result since last September and contrasts with a positive balance of only 9 per cent in March. It was also ahead of expectations: last month, a balance of 18 per cent of respondents said they expected higher sales in April.

Of 282 retailers polled, 60 per cent said sales were higher in April than a year earlier, while 19 per cent reported a decline. The resulting positive balance of 41 per cent was an improvement on March's balance of 18 per cent and the strongest outturn since January.

The recovery, however, was not unexpected: in March a balance of 42 per cent of companies said they expected higher sales in April.

Grocers and footware and leather retailers reported the most buoyant markets in April, while sales of durable household goods fell.

All the mail order companies surveyed reported lower sales than a year ago. Of the individual retailing groups: the best sales increases were reported by the large multiple stores.

Retailers were optimistic about prospects for this month. Some 53 per cent said they anticipated higher sales in May, relative to 1989, while 14 per cent expected lower sales.

A balance of 19 per cent of retailers said they expected sales this month would be good for the time of year, compared with 22 per cent last month who expected April sales to be good.

Overall, a positive balance of 27 per cent of retailers said the volume of orders placed with suppliers was higher than a year ago, the largest positive balance since May 1989. In April, stocks were run down in relation to expected sales; a balance of 13 per cent of companies reported excessive stocks, a smaller proportion than in March.

Sales also picked up in wholesaling. Of 153 companies polled, 49 per cent said sales were higher last month than a year ago, 21 per cent reported no change in sales and 29 per cent said sales had fallen.

The resulting 20 per cent positive balance for April was up on March's 6 per cent balance and well ahead of expectations. It was, however, below the positive balance of 35 per cent recorded this time last year.

A balance of 13 per cent of wholesalers said sales in April were good for the time of year. In March the balance was negative, indicating dissatisfaction with sales performance.

Food and drink wholesalers reported the best sales growth in April, while builders' merchants, industrial materials companies and machinery and office equipment groups reported lower sales volume than a year ago.

Wholesalers appeared relatively optimistic about prospects for this month. A positive balance of 21 per cent said they expected higher sales growth than a year ago. Growth in orders placed on suppliers picked up last month and stocks were run down in relation to expected sales.

Business conditions in the motor trades, however, remain extremely depressed. Lower sales were reported for the 12th monthly survey in succession.

Of 50 companies surveyed, only 12 per cent reported higher sales in April while 72 per cent said sales were down. The resulting balance of 60 per cent reporting lower sales was well below expectations and the worst figure since the survey began in 1983.

The outlook for May is gloomy, with a balance of 47 per cent of respondents expecting lower sales relative to 1989. The volume of orders placed with suppliers is also sharply down.

PR industry sees expansion in 1990

By Alice Rawsthorn

THE public-relations industry appears set for further growth this year in spite of a downturn in other areas of the marketing services sector, such as advertising and design.

A survey by the Public Relations Consultants Association, which represents most of the large consultancies in the UK, suggests that the level of expenditure on PR should increase by 18 per cent in real terms in 1990.

The survey was conducted among 64 member companies of the PRCA across the UK. Three quarters of companies surveyed forecast that their fee income would rise by between 10 and 25 per cent during the year.

The companies expected most of their growth to come from new business, with more modest increases in fees from existing clients. Two thirds of the consultancies expected to increase their staff this year.

The business-to-business and consumer sectors are expected to be the most buoyant areas of activity. The weakest area of the industry will be financial public relations, which is already suffering from the sluggish state of the stock market and the dearth of mergers and acquisitions.

The PRCA survey suggests that the public-relations industry will continue to flourish in the future. Almost four out of every five respondents said they were "equally or more confident" about their prospects for 1990, compared with last year.

Report eases power sell-off fears

By Maurice Samuelson

THE 12 electricity distribution companies of England and Wales would not suffer too greatly from losing supply customers to the two generating companies, National Power and PowerGen.

The forecast comes in a study of the distribution companies' prospects after flotation in November by Rowe & Pitman, the Government's joint brokers with Kleinwort Benson. The generators are campaigning for a relaxation on the business they can take from distribution companies through direct supply contracts with sites consuming at least 1MW of power.

The two generators now can each compete for 7 per cent of the sales in each distribution company's region. But Professor Stephen Littlechild, the regulator, is considering an appeal from National Power to relax the limit. The distribution company chairmen have challenged the appeal.

The report notes that the area companies' profit will come principally from the use of their wires – their distribution business – rather than as contractual suppliers.

"The impact of losing supply customers, while probably damaging to management pride, is of far less significance to the business than loss of distribution customers."

Electricity; The New Beginning. Nigel Burton and Mark Loveland. Warburg Securities, 1, Finsbury Avenue, London EC2M 2PA. Available on request.

High Court will hear wrangle over water assets

By Robert Rice, Legal Correspondent

THE Government's application to nullify claims brought by 15 local councils for compensation arising out of the privatisation last year of the regional water authorities in England and Wales will be heard by the High Court today.

The local authorities, led by Manchester and Birmingham city councils, are claiming £3.24bn in compensation for assets owned by municipal authorities before the transfer of control of the industry to the water authorities in 1974.

The councils argue that it was control rather than ownership that was transferred in 1974, and that the water authorities held the assets for the purposes of water supply and sewerage only. Once the assets ceased to be used for those purposes and were sold, the proceeds of the sale belonged to the municipality that owned and controlled them before 1974.

If the court rejects that argument, the councils say it must follow that ownership of the assets was transferred to the water authorities in 1974 and local authorities that lost assets are therefore entitled to compensation for their expropriation, similar to compensation for the compulsory purchase of land.

Writs were issued last November by 15 local authorities against eight of the 10 water authorities and successor companies. The actions are being defended by the Government because of the open-ended indemnity against such liability it gave the water authorities and successor companies to avoid postponement of the industry's flotation.

Mr Chris Patten, Environment Secretary, is applying to have the actions struck out as being without foundation, on the ground that the assets were transferred in 1974 and the considerable subsequent investment by the water authorities meant that any interest local councils may have had in the assets has been exhausted.


Chris Patten: applying for actions to be struck out

The allegation that the local authorities are mounting a frivolous and largely theoretical claim against the Government is rejected by the lead authorities.

Ms Hazel Blears, principal solicitor for Manchester City Council, says plans by North West Water to sell off 7,000 acres of the Lake District that previously belonged to the council, and the expected development on former council land within the Greater Manchester area, were examples of how the local population had been deprived through water privatisation.

The hearing, which will determine whether or not the local authorities have a case, is expected to last a week. With the unsuccessful party almost certain to appeal, it might be early next year before the action itself comes to trial.

The claims of the 15 councils are supported by 31 smaller authorities.

Benches braced for poll tax battle

Councils are already booking time in the courts, writes Jimmy Burns

LOCAL authorities in England and Wales, including Bristol and the London boroughs of Hackney and Greenwich, are in growing numbers reserving magistrates' court time for July in anticipation of legal action against a large number of people who fail to pay the poll tax.

There is evidence that collection of the new charge has got off to a patchy start. As the first bills fall due, some councils claim an enthusiastic response, but others expect a shortfall in the income they forecast when they set their community charge.

The Association of District Councils says some local authorities are facing difficulties in adapting their computers to process the new charges. Other issues identified last week by the ADC include the sheer number of potential poll taxpayers and of individuals entitled to rebates.

Among councils there is confusion about whether late payment of bills is because people cannot afford to pay or because they are defying the tax. Authorities plan to send at least one reminder before embarking on the politically sensitive legal road.

Leeds Council forecast its poll tax revenue at £14m a month, but with the second monthly instalment date falling due on Tuesday the council has collected only £12m.

Mr Brian Place, the council's assistant director for finance, said: "I know there is a certain amount of resistance to paying the poll tax. How big it is eventually going to be, I don't know."

Bristol City Council blames difficulties in collecting the tax on an unexpected logistical hitch. A machine for printing poll tax instalment booklets has broken down, so at least 50,000 registered local residents have not yet been charged.

Mr Barry Taylor, Bristol's public-relations director, said collection was also being delayed because people were awaiting the outcome of a judicial review of the Government's decision to cap the council's poll tax rate.

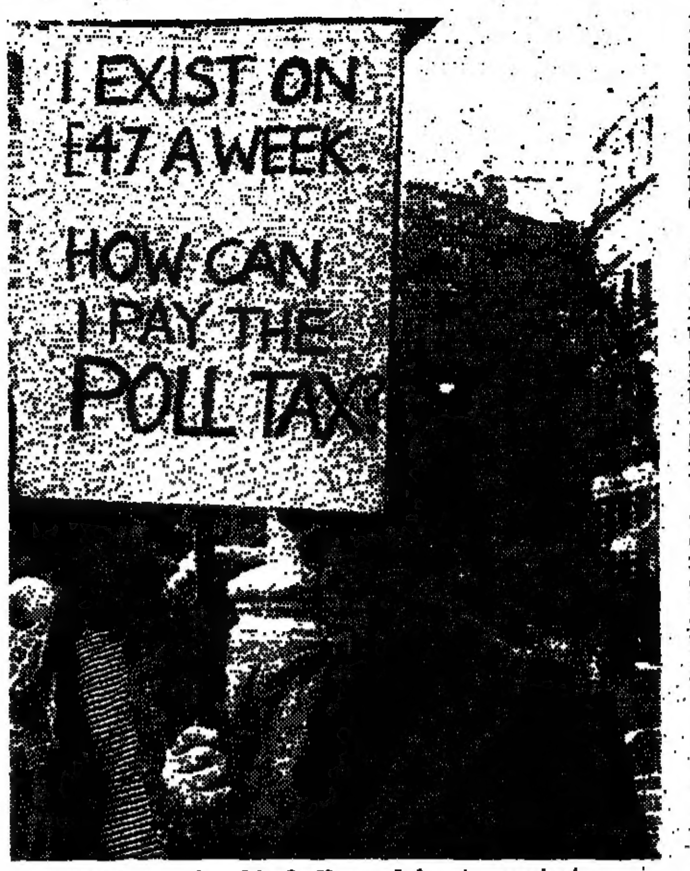
"It would be naive to assume that there aren't people in Bristol who do not say to themselves: 'Why do I pay now if I am eventually going to get an amended bill? I might as well wait for that.'"

In Greenwich, another capped council, official estimates of the number of people who may have to be prosecuted for non-payment are as high as 60,000, and the number of collection officers has been doubled to deal with growing administrative difficulties.

Mr Eddie McParland, a Labour councillor in Greenwich, who opposes the poll tax, said: "I am not in the least surprised by these estimates: they reflect the mood on the doorsteps."

Wandsworth Council in London, which has the lowest poll tax in England and Wales, said initial figures were still being compiled, but collection was giving "no cause for concern."

Council staff in Barnet in north London, which includes Mrs Thatcher's Finchley constituency, were reported to be working "flat out" to clear the large number of cheques. On the day of the first payment deadline, 2,650 people went in person to the council offices to pay an initial instalment on a charge of £338 each.



A pensioner makes his feelings plain at a protest against the poll tax, held in Trafalgar Square

In the Labour-controlled borough of Hackney, queues of pensioners formed outside the town hall at the beginning of this month to pay the first bills. Yet the £700,000 so far collected is believed to fall far short of the monthly revenue that could be gathered from the 136,000 local residents who have registered.

One Hackney official said the council's policy was to proceed cautiously only with low-income residents who were clearly in financial difficulties. "Our policy is not to get heavy with people: but we will get heavy with people if they have the means to pay it and don't. We shall use all the legal measures at our disposal."

Under the law, a registered individual has up to 28 days to pay after receipt of the first "billed" instalment. After that, the individual loses his right to pay in instalments and must pay in full. Further refusal paves the way for enforcement of a court liability order, which would empower a local authority to seize property or have the debts deducted from earnings.

Mr Steve Nally, secretary of the All-Britain Anti-Poll Tax Federation, which hopes to exploit the difficulties of collection, said his organisation was adopting a "wait-and-see attitude" before moving into action towards the beginning of July.

"We're preparing [for action] behind the scenes, whether it be in the courts or with the bailiffs. We are getting ready for what is going to be a long and, in some cases, bloody battle," he said.

Retail price index for April

THE retail price index rose to 125.1 in April (January 1987=1) from 121.4 in March. The tax and price index, which measures the increase in gross taxable income needed to compensate taxpayers for any increase in retail prices, rose to 118.2 in April to stand 7.7 per cent higher than a year earlier.

Wool industry exports fall by 4% to £166m

By Alice Rawsthorn

THE VALUE of exports in the wool textile industry, traditionally one of the UK's most successful export sectors, fell by 4 per cent to £166m in the first quarter of 1990, according to figures from the National Wool Textile Export Corporation in Bradford.

The decline comes at a very difficult time for the industry, based in the historic wool towns of the former Yorkshire area and the Scottish Borders.

It is also suffering from a sharp slowdown in demand in the domestic market, reflecting higher interest rates.

Some companies have been forced to shed staff and start short-time working. Last week Parkland Textile, one of the largest companies, announced a fall in profits for its last financial year, chiefly due to the downturn in the UK.

Until recently, the wool textile companies were able to count on buoyant exports – particularly to Japan and the European Community – to compensate for the slowdown experienced in their domestic market.

The Yorkshire and Scottish weavers have traded on the cachet of traditional British cloth to sell expensive products, in classic designs, to other countries. Exports have risen steadily in recent years and now represent about half the industry's turnover.

Since the start of this year the UK companies have found it increasingly difficult to compete in their international markets.

The continental European market is still buoyant, but the level of demand from Japan has weakened. The US market has been sluggish for several years.

Mr Geoffrey Richardson, director of the NWTEC, described the increase in exports to Europe as encouraging. He said the Japanese market had slowed but added that he expected exports to the US to recover because of the recent rise of the dollar against the pound.

Ludgate rebuilding starts

A RAILWAY viaduct between Blackfriars and Holborn Viaduct in central London, including the railway bridge over Ludgate Hill in central London, is being removed this week in one of the key stages in a £400m development of the area by Rosehaugh Stanhope Developments.

The removal will restore a view of St Paul's Cathedral from Fleet Street obscured since 1866.

The land formerly occupied by the railway lines will provide the site for five large office buildings and a new public square, which are scheduled for completion at the end of 1991. A new railway station, St Paul's Thameslink, will replace Holborn Viaduct, which closed in January.

Services will be suspended for the demolition work until 10pm on Monday, May 28. During that time, around 380 hours, the 350 men working on the Ludgate project are faced with a substantial challenge: to completely re-route Thameslink underground; remove 150,000 tons of material from the viaduct, remove the bridge over Ludgate Hill; lower the 500 ton railway bridge over Queen Victoria Street by 3 ft and open St Paul's Thameslink station.

Action proposed to curb timeshare sales tactics

By David Churchill, Leisure Industries Correspondent

LEGISLATION to curb the selling techniques of rogue timeshare operators, as well as a statutory "cooling off" period for buyers, is recommended in a draft report from the Office of Fair Trading to be published next month.

The report, based on an 11-month investigation by the OFT, is understood to have ruled out self-regulation for the timeshare industry.

Although the OFT officials carrying out the investigation are initially believed to have favoured self-regulation, the failure of the timeshare industry to improve its operations over the past year has convinced the OFT of the need for legislation.

In addition, wrangling among leading members of the Timeshare Developers' Association – the industry's main trade body – has ruled out a voluntary code of conduct. Both Barratt International Resorts and Wimpey Leisure have pulled out of the association this year.

The Government is understood to favour early legislation to give greater protection to consumers and is also pushing for a European Community directive on the issue.

Mr Eric Forth, the Under-Secretary for Consumer Affairs at the Department of Trade and Industry, admitted in the Commons earlier this month that there had been "a growing tide of complaints about the way in which some timeshare operators try to promote their product."

About 180,000 Britons are thought to own a timeshare property – most of them on the Continent – and an estimated 3,000 timeshares are still sold every month during the summer.

Difficulties arise with maintenance fees for timeshare properties rising, as well as with low resale values.

The OFT report, however, is understood to concentrate on the high-pressure selling techniques used by timeshare companies rather than the longer-term difficulties encountered by existing owners.

COMPANY NOTICES

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Cab-rank amendment wins welcome from profession

By Robert Rice, Legal Correspondent

THE Government's amendment to the cab-rank clause, added to the Courts and Legal Services Bill at report stage in the Lords, has been widely welcomed by both sides of the profession.

The Bar's acceptance of the Mackay amendment is understandable, even if it is a somewhat watered-down version of the original, which purported to extend the Bar's so-called "cab rank" rule to solicitors wishing to exercise new rights of audience in the higher courts.

Less easy to fathom is the Law Society's change of heart over the matter, given its previous opposition to the enshrining of such a rule in primary legislation.

The apparent reason for its *volte-face* is that the Mackay amendment is so cleverly constructed that it has allayed the fears of solicitors about the rule's application without eroding the rule's underlying principle that advocates should not discriminate between clients.

In other words, it is sufficiently flexible that it can be construed in such a way that the rule will have no more application to the solicitor's profession than it has now.

The trouble with cleverly constructed legislation, however, is that it is open to differing interpretation. Solicitors may feel that the Mackay amendment leaves them largely untouched by the cab-rank rule.

The judiciary, to whom the final interpretation of the rule's application may fall, may take a different view. So is the society's optimism misplaced?

The origins of the cab-rank rule, which places barristers under a duty to represent any person who seeks their services, however unpleasant or disreputable they may be or however unpopular their cause, dates back to the 13th century, when the Sergeants at Law were sworn to represent all comers, however unpopular.

There have, over the years, been some celebrated applications of the rule, among the most often cited being Lord Erskine's defence of Thomas Paine in spite of pressure from the Government of the day to the contrary.

In more recent times, the rule has been more celebrated for the way in which it has been ignored. It was hardly surprising, therefore, that when Lord Alexander, former chairman of the Bar, introduced his amendment to insert the rule into the general principle of the bill, the society, among others, should have cried "foul."

In its briefing for the bill's committee stage in the Commons, the society wrote: "This purports to be a non-discrimination clause requiring advocates to take all cases within their field of practice, whether legally aided or not. But it is in reality a crude attempt to obstruct the extension of solicitors' rights of audience."

It went on to say that the rule does not even apply to the Bar in the way its supporters claim it does. When, for example, the Bar introduced its new code of conduct last year, it was made clear that barristers were free to refuse legal-aid work on the grounds that the fees were inadequate.

The society's position was – and presumably still is – that there is no difficulty in practice for which such a rule is needed.

Litigants have no difficulty in finding a solicitor to act for them, however unpopular their cause, even though the rule does not extend to the solicitors' profession, it says.

Indeed, since barristers take cases only on referral from solicitors, the Bar's cab-rank rule cannot come into operation unless a solicitor has already voluntarily agreed to represent a litigant. The society wanted the Alexander *amendment removed.*

After consultation with consumer groups and listening to both sides of the profession, the Government made clear during the second-reading debate in the Commons that, rather than removing the Alexander amendment altogether, it intended to modify it to ensure the universal adherence by advocates to the principle of non-discrimination.

The Mackay amendment is designed to ensure that advocates who have, or are seeking, the right to represent people in court will not discriminate between prospective clients on the ground that the client or the case is objectionable to them or to the public in general, or on the ground of the prospective client's source of financial support for the legal action – for example, if the client is legally aided. The principle will apply to all rights of audience granted by a professional body in any court, and will safeguard the position of employed lawyers who will be able to seek rights of audience and continue to act only for their employer – something that the original amendment would have excluded.

The society believes that the new amendment means solicitors cannot be forced to act where they see justifiable reasons not to, and that the wording of the amendment is a marked shift away from a duty to act, to a prohibition against not acting.

Thus a solicitor will be able to decline to act for a prospective client for a whole host of reasons, provided the reason he gives is not prohibited.

In other words, the rule is toothless because the solicitor will always be able to produce a reason for not acting which the legislation permits him to use as an excuse.

If the solicitor-advocate's policy is not to act for alleged rapists or for landlords, provided he does not give that as the actual reason for refusing to act, he will be able to continue to operate such a policy.

In reality, there are likely to be more difficulties with the statutory principle than the society is prepared to admit – at least in public. A solicitor who represents tenants regularly but who is known to have *a policy not to act for landlords* might get away with it once or twice on the ground, for example, that he or she has too much work to take on the case.

But if, for example, a landlord or group of landlords were to mount a concerted campaign to test the solicitor's adherence to the non-discrimination principle, it would surely be only a matter of time before it was established on the balance of probabilities that he or she was discriminating between clients on the ground that the client or the client's case was objectionable to him.

Even if in practice it proves difficult to establish that a solicitor is flouting the rule, it is not hard to see that solicitors might find themselves with increasing regularity having to justify a refusal to act.

The cab-rank rule is in practice little more than a statement of principle. As such, it is to be welcomed. The effect of enshrining it in primary legislation, however, will be to turn it into a binding rule, and allowing that to happen is something solicitors may come to regret.

■ ■ ■

PROFESSOR Hiroshi Oda, of the University of Tokyo, is to become the first holder of the Sir Ernest Satow chair of Japanese Law at University College, London, from October 1. This is the first Japanese law chair in Europe.

Professor Oda is an expert on Soviet and eastern European law

He would like to see the chair develop eventually into a centre for EC-Japanese law, acting as a conduit for information between Japan and Europe. He confirms the increasing interest being shown by Japanese companies in investing in eastern Europe, particularly, he says, in Hungary and Czechoslovakia.

Attitudes towards Poland are more cautious, he says. Japanese companies are wary of the perceived political instability, and potential difficulties with the trade unions and labour discipline.

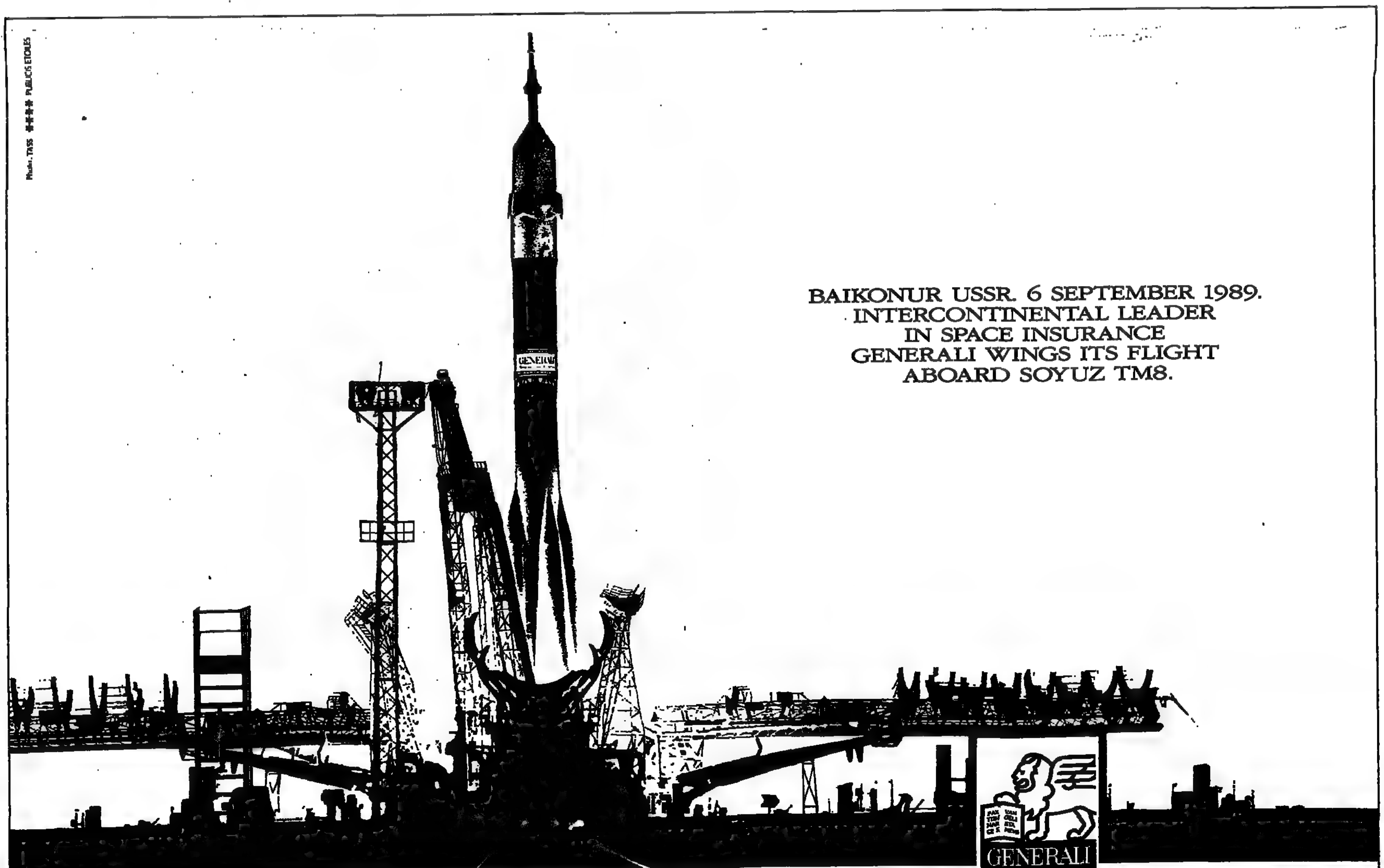
■ ■ ■

LAW FIRMS, it seems, will do almost anything these days to *promote* themselves.

The 13-partner Holborn firm Gregory, Rowcliffe & Milners, has hit on the novel idea of taking a stand at next week's Chelsea Flower Show.

The idea may not be quite as daft as it might seem at first. "Our members are always asking legal questions," a spokesman for the Royal Horticultural Society says.

The firm's exhibit will highlight a number of ways in which gardeners and landowners come into contact with the law, advising on issues such as boundary disputes, occupiers' liability and so on.



CONSTRUCTION CONTRACTS

Olympic hotel scheme

Trafalgar House company RICHARD LEES has won an order valued at almost £1m from Emesa Construction of La Coruna for the supply and erection of 44,000 sq metres of steel deck flooring for the new five star Vila Olimpica hotel in the Olympic village in Barcelona.

Vila Olimpica is believed to be the first building in Spain to incorporate the savings offered by full composite action between steel frame and steel decked floor slab, a technique which is used in the UK in the construction of multi-storey steel-framed buildings. Richard Lees erection teams will commence fixing of decking and through-deck stud welding later this year.

Paper mill for Welsh town

ALFRED McALPINE CONSTRUCTION's north west region has been awarded an £8.4m contract by Kimberley Clark to build a paper mill, together with adjoining converting factory, despatch warehouse, waste paper store and two-storey office block, at Flint in Clwyd.

The main building will be supported on reinforced concrete foundations and will be of structural steel-frame construction with metal roofing and metal-clad elevations.

The machine house will feature a deep basement and machine foundation which will require the installation of a sheet-piled cofferdam during construction.

Various ancillary works to be carried out under the contract includes provision of an effluent plant, general drainage, external infrastructure and landscaping.

High technology offices

NORWEST HOLST has been awarded a number of contracts for civil, commercial and residential work with a combined value of over £70m.

Under a £14m design and management contract, Norwest Holst Management will construct a high technolgy two-storey building, containing offices together with a test facility and separate restaurant, for Nissan European Technology Centre, at a new "technology park" in Cranfield.

At Chester, work has started on the Mercia Square redevelopment for Sibec (Chester), at a cost of £8.6m. A speciality shopping centre based around a central open glazed atrium, will be constructed with shopping units on three floors, as well as rebuilding part of an existing unit.

Working for the PSA office in Cardiff, the company has been awarded a £7.3m contract for construction of a single-storey electronic workshop with two-storey offices and associated plant room at RAF Sealand.

Norwest Holst Pipework Services has won an £8.4m contract from Lurgi (UK) to to enhance the performance of electrostatic precipitators at National Power's Didcot power station and a £4.5m award to carry out a three-year contract for British Gas (West Midlands).

Chartwell Land has awarded a £4.9m contract for four retail units and a four-storey air-conditioned office building with associated underground car parking at 118-130 High Street, Watford.

At Crawley sewage treatment works in Tinsley Green, the company is undertaking a £4.2m design and build contract to construct an aeration system for Thames Water Utilities.

Improving access to Newcastle Airport

Tyne and Wear Passenger Transport Executive has awarded BALFOUR BEATTY CONSTRUCTION NORTHERN a £8.3m design and build contract to extend the Newcastle Metro from the city out to the airport.

With a construction period of 15 months, the project is scheduled to start in June and will involve all trackworks and overhead lines, a second platform at Bank Foot Station and an island platform, ticket hall and approach links at the airport.

With all engineering design provided by Mason Pittendrigh, the contract also includes ancillary works of level crossings, an accommodation bridge and all the station fitments.

The central building division of Balfour Beatty Building has been awarded a £3m contract to construct the Air Navigation and Training School at RAF Finningley in Doncaster, south Yorkshire, from the PSA.

Other awards won by Balfour Beatty Building include: a £2.5m contract from Guardian Assurance to build a two-storey office building on Colchester Business Park in Essex; a project worth £2.15m for the construction of a distribution depot at Lewes, East Sussex by Grand Metropolitan Estates (Developments); a £390,000 contract awarded by British Airways for a de-icing plant at Gatwick Airport; a £1.5m contract for the construction of an office development in St. Austell, Cornwall for South West Water; and a £1.4m contract from Handley Walker Group to build a 1,100 sq metre two-storey office block in Fradley, Staffordshire. Balfour Beatty is a BICC company.

Offices project in the City of London

DOVE BROTHERS, a subsidiary of McLaughlin & Harvey, has won contracts totalling £9.5m. The largest is for the construction of offices with a retained facade at Churchill House in Old Street for Lazercross. The £3.86m contract is scheduled for completion in 66 weeks.

Work has also commenced on the refurbishment of offices at Gate House, Welwyn Garden City, for the Norwich Union Life Assurance Society. The contract is worth around £3.5m with completion scheduled in 36 weeks.

External refurbishment work, worth in the region of £1m, is under way at Theobalds Park College, Waltham Cross, for the London Borough of Enfield.

Other London projects include work for the board of governors for the Hospital for Sick Children at Great Ormond Street valued at £500,000 and an order from London Merchant Securities at Whitfield Street in the West End worth £140,000.

£17m orders awarded to M.P. Burke

Orders worth more than £17m have been placed with M.P. Burke, the Barnsley civil engineering, building and public utility contractor.

The utilities division has been successful on both Anglian Water and Yorkshire Water water mains and service laying period contracts valued at £5.4m and £3.7m respectively. A similar 12 month contract, valued at £1.5m, has been awarded by Northumbrian Water together with a water mains and pipe bursting contract, valued at about £500,000, for The Sunderland and South Shields Water Company.

Work has also commenced on a gas mains and service laying period contract for British Gas, north eastern region. The two-year contract, worth around £4m, covers the whole of east Yorkshire covering towns such as Scarborough, York and Hull.

The civil engineering division has won a contract from The Slag Reduction Co, Sheffield for £1m of heavy foundations work for the relocation of its operating facilities at Tinsley Park and on the same site new roadways and drainage for British Steel Stainless.

Work has also commenced on a raw materials stockyard project for Stocksbridge Engineering Steels, valued at £500,000, and further contracts for civil engineering works to a tar plant at Scunthorpe and sewage treatment works extensions at Keighley have been awarded by Bitmac and Yorkshire Water respectively.

DIARY DATES

PARLIAMENTARY

Today

Commons: Energy questions.Debate on Opposition tax policy. Pakistan Bill, second reading. Private business: Clyde Port Authority Bill, second reading.

Lords: National Health Service and Community Care Bill, committee. Property Services Agency and Crown Suppliers Bill, report.

Select Committees: Environment: Subject. Dept of Environment and Property Services Agency main estimates 1990-91. Witnesses. Dept of Environment and PSA officials. 4.30pm Room 21.

Public Accounts: Subject: Arts Council. Witnesses. C.E.Henderson Office of Arts and Libraries. A.Everett Arts Council. 4.30pm Room 16.

Tomorrow

Commons: Defence questions. questions to the Prime Minister 3.15pm. Finance Bill, committee. Debate on immigration rule changes.
Lords: Law Reform (Miscellaneous Provisions) (Scotland) Bill, report. Computer Misuse Bill, second reading.

Wednesday

Commons: Trade and Industry questions. Finance Bill, committee. Debate on Personal Equity Plan (Amendment) Regulations.
Lords: Debates on European co-operation in cultural, humanitarian and spiritual matters and calls to eliminate nuclear weapons by the year 2000. Consumer Guarantees Bill, second reading. Agricultural Holdings (Amendment) Bill, second reading.
Select Committees. Environment: Subject. Indoor pollution. Witnesses. Dept of Environment officials. 10.30am Room 21. Welsh Affairs. Subject. Supply of starter homes in Wales. Witnesses. Council of Welsh Districts. Welsh District Planning Officers Society. 10.30am Room 18.

Defence. Implications for UK defence policy of events in Eastern Europe. Witnesses. Admiral of the Fleet, theLord Lewin, Field Marshal the Lord Bramall, Marshal of the RAF Sir Michael Beetham. Sir Frank Cooper. 10.50am Room 15. Energy. efficency. Witness. Association for the Conservation of Energy. 11.00am Room 8.

Education. Science policy and the European dimension. Witnesses. Science and Environmental Research Council. Natural Environment Research Council. 4.15pm Room 18. Public Accounts: Subject. Support for Lone Parents. Witness. M.J.A. Partridge. Dept Social Security. 4.15pm Room 16.

Thursday

Commons: Agriculture questions. 3.15pm questions to the Prime Minister. Employment Bill, remaining stages.
Lords: Law Reform (Miscellaneous Provisions) (Scotland) Bill, report. Aviation and Maritime Security Bill, report stage.

Friday

Commons: Debate on the Channel Tunnel rail link.
Lords: Property Services Agency and Crown Suppliers Bill, third reading. Environmental Protection Bill, second reading. Drug Trafficking Offences Act 1986 (Designated Countries and Territories) Order.

FINANCIAL

TODAY
COMPANY MEETINGS-
Alexandra Workwear, The Savoy Hotel, Strand, W., 12.00
Fortnum & Mason, Basil Street Hotel, Basil Street, W., 11.30
Home Counties Newspapers, Strand Palace Hotel, W., 3.15
Lopex, The Savoy Hotel, Strand, W., 12.00
Newmarket Venture Capital, The Brewery, Chiswell Street, E.C., 12.00
SmithKline Beecham, Grosvenor House, Park Lane, W., 11.00
BOARD MEETINGS-
Finals:
English & Intl. Trust
New Ireland Hldgs.
Stratton Inv. Trust
Walker Greenbank
Interims:
SCC
Holmes & Marchant
Imperial Cold Storage & Supply
Kunick
TMD Advertising
Vaux
DIVIDEND AND INTEREST PAYMENTS-
Akzo NV (Reg.) Fl.6.5
Do. (Br.) Fl.6.5
Associated British Ports 4p
Candover Invs. 5p
Capita 1.7p
Clyde Petroleum 0.65p
Davies & Metcalfe 3.3p
Do. A NV 3.3p
Jacob (W. & R.) 6.6p
Oliver 4.75p
Do. A NV 4.75p
Tyne Tees Television 13p
Worcester 2.57p
TOMORROW
COMPANY MEETINGS-
APV, Grocers Hall, Princes Street, E.C., 12.15
Booker, St. James Court Hotel, Buckingham Gate, S.W., 12.00
Copymore, Gilmour House, Gilmour Street, E.C., 11.00
Eadie Hldgs., 166 St. Vincent Street, Glasgow, 12.00
Macfarlane, 7 West George Street, Glasgow, 12.00
Marley, Riverhead, Sevenoaks, Kent, 12.00
RKF, Gatwick Hilton Hotel, Gatwick, West Sussex, 10.00
SD-Scicon, Royal Horseguards Thistle Hotel, Whitehall Court, S.W., 12.00
Smith & Nephew, Grosvenor House Hotel, W., 11.00
Trade Indemnity, 12-34 Great Eastern Street, E.C., 12.00
United Newspapers, Stationers Hall, Ave Maria Lane, E.C., 12.30
BOARD MEETINGS-
Finals:
Addison Consultancy
Allied-Lyons
Analysis Hldgs.
Apollo Metals
Govett American Endeavour Fund
Sainsbury (J.)
Vivat Hldgs.
Warner Howard
Interims:
Alexanders Hldgs.
Concentric
Dunedin Worldwide Inv. Trust
Hanson
Huntingdon Intl.
Metro Radio
Moss & Allied Supplies
Richards
DIVIDEND AND INTEREST PAYMENTS-
Abbott Labs. 42cts.
Algemene Bank Nederland NV Dfl.1.6
Bancomer SA Sub. Fltg. Rate Nts. 89/90 $43.36
Barclays Bank 16% Uns. Cap. Ln. 2002/07 8pc.
Do. 8¼% Uns. Cap. Ln. 86/93 4.125pc.
Baynes (Charles) 0.75p
Beattie (James) 6¾% 1st Mtg. Deb. 89/90 3.375pc.
Bergesen d-y AS A NKr2
Do. B NV NKr2
Bluebird Toys 5.75p
Britannia Bldg. Soc. Fltg. Rate Nts. 1995 £373
Brunswick 11cts.
Burndene Invs. 15% Uns. Ln. 2007/12 7.5pc.
Cambridge Elect. Inds. 7.1p
Chase Manhattan 62cts.
Do. Fltg. Rate Sub. Nts. 2009 $205.89
Colgate-Palmolive 45cts.
Conversion 10% 1996 5pc.
Do. 9¾% 2006 4.875pc.
Evans Halshaw 7.85p
Exchequer 13¼% Ln. 1996 6.625pc.
F & C Smaller Co's 6% Prf. 2.1p
Forth Ports Auth. 3¾% 1.875pc.
Gates Rubber Co. 4¼% Deb. 2.125pc
Gent (S.R.) 1.28p
Hambros Inv. Tst. 5% Prf. 1.75pc
Ibex 1.9p
Inter-American Development Bank 9¾% 2015 4.875pc
Investors Capital Tst. 4% Deb. 2pc
Korea Exchange Bank Fltg. Rate Nts. 2000 $439.93
Linread 3.8p
Marsh & McLennan 95cts
Nova Corp. of Alberta 15cts
Pacificorp 34.5cts
Perkins Foods 1.7p
Royal Tst. Dollar Income Fd. 17cts
Scottish American Inv. 4% Deb. 2pc
Scottish Eastern Inv. Tst. 4% Deb. 2pc
Do. 4% Perp. Deb. 2pc
Scottish Mortgage & Tst. 4½% Irrd. Deb. 2.25pc
Second Alliance Tst. 4½% Deb. 2.25pc
Securities Trust of Scotland 7% Deb. 88/93 3.5pc
Standard Life Assurance 5% Perp. 2.5pc
TSB Gilt Fd. 2.75p
Trade Indemnity 1.22p
Treasury 12¾% Ln. 1995 6.375pc
UCB Sidac 5% Deb. 85/90 2pc
WEDNESDAY MAY 16
COMPANY MEETINGS-
Arcolectric, Central Avenue, East Molesey, Surrey, 11.00
Associated Fisheries, St. Ermins Hotel, Caxton Street, S.W., 12.00
Bowthorpe Hldgs., Gatwick Road, Crawley, West Sussex, 2.00
Hewitt (J.), North Stafford, Hotel, Station Road, Stoke-on-Trent, 10.30
Legal & General, 11 Queen Victoria Street, E.C., 2.30
Nestor-BNA, The Brewery, Chiswell Street, E.C., 12.00
Spirax-Sarco Engineering, Queens Hotel, Cheltenham, 3.00
Sun Alliance, 1 Bartholomew Lane, E.C., 12.30
Ultramar, Savoy Hotel, Strand, W., 11.30
BOARD MEETINGS-
Finals:
Baris Hldgs.
City of Oxford Inv. Trust
Gloves
Warrdord Invs.
Whitbread
Interims:
FRIDAY MAY 18
COMPANY MEETINGS-
ATA Selection, Great Eastern Hotel, Liverpool Street, 12.00
Ash & Lacy, Botanical Gdns., Westbourne Road, Birmingham, 12.00
Burmah Oil, Caledonian Hotel, Edinburgh, 11.30
Clifford Foods, Balcony Restaurant, Ascot, Berks., 11.30
Dixide Heal, Crest Hotel, Filton Road, Bristol, 12.00
Edinburgh Fund Managers, 4 Melville Crescent, Edinburgh 12.15
Forward Technology Industries, The Brewers Hall, Aldermanbury Square, E.C., 12.00
Gibbs & Dandy, Chiltern Crest Hotel, Waller Avenue, Luton, 11.00
Lec Refrigeration, Shripney Works, Bognor Regis, 11.30
Lincoln House, 30 Queen Anne's Gate, W., 9.30
Palmes, Grand Hotel, Leicester, 12.00
Sintrom, The Reading Boat House, Mill Lane, Sindlesham, Wokingham, 10.30
BOARD MEETINGS-
Interims:
Value & Income Trust
Finals:
Moran Hldgs.
Overseas Inv. Trust
DIVIDEND & INTEREST PAYMENTS-
Adwest 1.25p
Air London Intl. 1.1p
Amber Day 0.7p
Arcolectric 0.48p
Do. A NV 0.48p
BBA 5.35p
BPP 3.25p
BTR Nylex 12.5cts
Barry Wehmiller Inc. 2.2p
Benchmark 0.75p
Brent Chemicals Intl. 5.4p
Bridgend 0.65p
British Dredging 4.4p
Bullers 1.5p
Chelsea Man 0.8p
Clifford Foods 6.4p
Do. A NV 6.4p
Courtney, Pope 3.75p
EBC 4.5p
Gibbs & Dandy 2p
Do. A NV 2p
Goal Petroleum 1p
Hasbro Inc. 5cts
Home Counties Newspapers 5.6p
Lec Refrigeration 10.5p
London & Edinburgh Tst. 3.5p
McLaughlin & Harvey 5.71p
Merchants Tst. 2.15p
Morrison (Wm.) Supermarkets 1p
Pavilion Leisure 3.5p
Portmeirion Potteries 4.5p
Rugby 3.4p
Sime Darby Berhad 0.6p
Stag Furniture 4.75p
Standard Chartered 22.5p
TV-am 8p
Technology Project Service 5p
Treasury 10% 2004 5pc
SATURDAY MAY 19
DIVIDEND & INTEREST PAYMENTS-
Exchequer 9% 2002 4.5pc
INVESCO MIM 3.7p
Treasury 10½% Stk. 1999 5.25pc
SUNDAY MAY 20
DIVIDEND & INTEREST PAYMENTS-
Caterpillar Inc. 30cts
Exchequer 12% 1998 6pc
Do. 12% 1998 B 6pc
Security Pacific Corp. 63cts
Slough Estates 6% Cnv. Bds. 2003 3pc
Treasury 2½% IL 2003 £1.8505
Do. 2½% IL 2009 £1.8505
Astra
Avon Rubber
Baggeridge Brick
Diploma
Fleming High Income Inv. Trust
Greenall Whitley
Group Development Capital Trust
Northern Industrial Improvement Trust
Thomson Corp.
Tomkinsons
DIVIDEND & INTEREST PAYMENTS-
Bankers Tst. Int'l Capital NV Gtd. Fltg. Rate Sub. Nts. 1996 $208.59
Federal Business Development Bank 10¾% Nts. 1991 5.375pc
Grampian Hldgs. 3p
Hewitt (J.) 1p
Japan Development Bank 10% Gtd. Nts. 1995 5pc
Kleinwort Benson 10.7p
Macfarlane 3.2p
North Midland Construction 2p
Ottoman Bank £11
Owners Abroad 1.6p
South African Land & Exploration 20cts
Totter Kemsley & Millbourn 3.5p
Unilever 12.24p
Wells Fargo Fltg. Rate Sub. Nts. 1997 $208.56
THURSDAY MAY 17
COMPANY MEETINGS-
Boosey & Hawkes, Holiday Inn, Swiss Cottage, 12.00
Brent Chemicals Intl., Oakley Court Hotel, Windsor Road, Windsor, 4.00
Bullers, Moorgate Place, E.C., 11.30
Dewhirst Intl., Ironmongers Hall, Barbican, E.C., 12.00
Enterprise Oil, 5 Montague Close, London Bridge, S.E., 12.00
Erith, Chartered Accountants Hall, Moorgate Place, E.C., 12.00
European Home Products, 2 Swan Lane, E.C., 9.30
Goldrange, Grosvenor House Hotel, W., 12.00
Iceland Frozen Foods, Second Avenue, Deeside, Clwyd, 10.00
Jerome (S.), Post House, Bramhope, Leeds, 12.30
Laing (John), Dacorum District Council Pavilion, Marlowes, Hemel Hempstead, 2.15
Morrison (Wm.) Supermarkets, Bankfield Hotel, Bradford Road, West Yorks., 11.00
Portmeirion Potteries, London Road, Stoke-on-Trent, 2.30
Scottish Heritable Trust, The Moat House Intl. Hotel, Bridgefoot, Stratford-upon-Avon, 12.00
Sharpe & Fisher, Pittville Pump Room, Evesham Road, Cheltenham, 12.00
Shell Transport & Trading, New Connaught Rooms, Great Queen Street, E.C., 11.30
Stag Furniture, Rutland Square Hotel, Nottingham, 12.00
Thurgar Bardex, Royal Hotel, Market Square, Kettering, 12.00

Docklands Light Railway four mile extension

The building and civil engineering division of TRAFALGAR HOUSE has won contracts totalling £10.4m.

The largest, awarded to Cementation Piling & Foundations and valued at about £5m, is on the London Docklands Light Railway extension running from Poplar to Beckton.

The contract calls for piling to bridges, viaducts and stations over a rail length of about four miles. In all, over 2,500 piles will be placed with diameters ranging from 450mm to 2100mm. The piling will be preceded by 28 preliminary pile tests with loads of up to 1,200 tonnes.

In Basildon, Willett has been awarded a £2.4m contract for Phase 1 of the next site to be developed at the Southfields Business Park. This involves construction of 28,000 sq ft of high-technology detached and semi-detached, two-storey office units in a landscaped business village for Trafalgar House Business Development.

Two contracts totalling around £3m have been awarded to Cementation Construction for Teesside Development Corporation's Hartlepool Renaissance project involving construction of a yacht lock and repairs to the walls of the marina basin.

BUSINESSMAN'S DIARY

Trade fairs and exhibitions: UK

Current
Interior Design International Exhibition (081-868 4499) (until May 17)
Earls Court

May 15-17
International Fresh Produce Fair & International Chilled Food Fair (071-727 1929)
NEC, Birmingham

May 16-17
The 1990 London Docklands Business and Property Exhibition - seminar "Moving to Docklands" May 17 (071-538 4036)
Red Hall, Barbican

May 21-26
International Federation of Precast Concrete Exhibition and Conference (081-743 3106)
Queen Elizabeth II Conf. Centre

May 22-24
London Wine Trade Fair (071-973 6401)
Olympia

May 22-25
Chelsea Flower Show (071-834 4333)
Royal Hospital

May 24-28
Model Show (021-780 4171)
NEC, Birmingham

June 1-3
Kensington Fashion Fair (071-727 1929)
Kensington Town Hall

Business and management conferences

May 14-15
Insurance and Reinsurance Research Group: Reinsurance accounting (071-236 2175)
Kensington Close Hotel, London

May 14-15
Acquisitions Monthly: Strategies for buying and selling unquoted companies – a practical approach (071-823 8740)
Le Meridien Hotel, London

May 15-16
Enterprise Events: Finance 90 (081-940 2344)
Olympia 2

May 18
IBC Technical Services: Environmental economics (071-236 4080)

Overseas exhibitions

Current
International Lighting, Equipment, Fixtures, Fittings & Technology Show (071-486 1951) (until May 18)
Hong Kong

May 19-27
International Spring Fair (071-839 7955)
Luxembourg

May 23-May 31
International Spring Fair (021-455 9600)
Budapest

June 5-8
Communications Equipment Exhibition - BRAZIL COM EXPO (081-977 3474)
Rio de Janeiro

June 12-14
CAD/CAM & Robotics Exhibition (081-940 3777)
Toronto

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

MANAGEMENT

ERY other guy they had n here was either sacked ecame ill," says Danny nkranz.

day Rosenkranz, 44 this h, *is in rude* health and is ompany's longest serving aging director. Far from g sacked, the "they", or particularly, Richard lano, executive chairman OC, the diversified gases ness, has just promoted o chief executive of one of s three divisions.

e 1980s have been good to nkranz but that is because nkranz has been good for rds High Vacuum Inter- ual – a *BOC subsidiary* h, under his tutelage, has to a position of market rship in the application of ums in industries as se as pharmaceuticals and conductors.

late 1982, when Rosenk- was forced to consider the of his predecessors in the of the offer BOC had just him, Edwards was a maker. That year it pro- d a turnover of around ; today it earns a return apital of between 20 and 25 cent and will have sales year of about £140m.

e story of Edwards in the is one of remarkable cor- te rejuvenation. So rkable, in fact, that the on Business School uses it case study for its MBA amme.

he human side – what do to make their version trix management work – portant," says John Stop- of the LBS. "They have a team of people that are interchangeable than in British industry. There eal team-building at rds; many companies talk it but few achieve it."

narkable as Edwards'

Corporate restructuring

Esprit de corps: life-blood of the matrix

Simon Holberton explains the rejuvenation of Edwards Vacuum

rejuvenation was, building on past successes and maintaining the momentum is vital to the company's continued growth and development. Edwards' success has bred problems – essentially of size – which have forced it to change.

● Size has forced Rosenkranz to think of how best to structure the company for the 1990s and late last year he restructured management completely.

● Size has also exacerbated Edwards most pressing financial problem: controlling its level of stocks. The solution currently being planned for stock control will also help it face tough international competition in the US, Europe and Japan by improving the time it takes to manufacture and deliver its products.

For Rosenkranz the reorganisation of management that occurred towards the end of 1989 is fundamental to the company's continued growth. Like many managers of successful companies contemplating reorganisation he had to work out how to structure the business without risking the creation of unnecessary bureaucracy.

"It needed to be zoned, but how? By geographic region, by business sector, by two, by three? We decided to zone it vertically and take three (geographical) slices out of it. If we *can get the people to work* together it should work. We'll give it a go."

The restructuring represented a further evolution in Rosenkranz's approach to matrix management. He divided Edwards' sales and marketing into two units: systems and components. (Systems are complete solutions to a problem, such as a freeze-drying plant with all its ancillary support equipment, while components are things like vacuum pumps which may augment a system or be used on its own.)

Both divisions are headed by a director who sits on the management committee. The world has been split into three regions – Europe, the US and Pacific – where the two directors are responsible for deploying their staff resources. Along with this head office reorganisation, the sales and marketing effort has also been revamped in those regions.

Dave Ringland, director of components, says the reorganisation of sales and marketing in the US is designed to make the UK manufacturing base more responsive to the market. "We want them to tell us what the market needs in terms of products and specifications; also of niches and opportunities. If we get that right, then we have got it right for at least *40 per cent of the world market.*"

People from both sales and marketing teams are expected to be on the look-out for opportunities for each other. Says Alex Mudge, director of systems: "Dave and I act as a service to both sides of the business. We don't want both sides of the business going in opposite directions."

This, along with their willingness to make statements about the other's area of responsibility, underlines the identity of purpose which seems to pervade Edwards. Senior management across the whole of the company's business – manufacturing, technical services, sales and marketing, corporate services or personnel – appears to understand where Edwards is and what it needs to get better.

Rosenkranz says that decisions are never taken at the company's monthly management committee meeting, formerly its board meeting; it just reviews what has happened. "If something needs to be done, the relevant group will report and if it's approved, it's a decision," he says.

He likes his people to work in groups. They congregate at all levels of the company and the meetings are inter-disciplinary. At sub-director level teams look at things Edwards

Danny Rosenkranz: a difficult act to follow

should be doing over the next few years. According to Rosenkranz, they tend to produce 'wish for' and 'wish not for' lists, but, he says, they are a way of getting people involved. "We don't want to end up with departments not understanding each other."

But putting people into groups, which help make them understand the problems of others in the company, is half of the explanation of the apparent esprit de corps at Edwards.

The other half of making what Stopford calls "the human side" work is information. On all senior managers' desks is a networked computer and the information it contains is the life-blood at Edwards.

At the heart of this system is Keith Pointon, Edwards' quietly-spoken commercial director. For Pointon, a matrix management system needs a clever information system to make it work. "It helps keep conflict between senior management to a minimum, because it helps issues to be seen in a clear way and discussed unemotionally," he says. "Information has enabled us to keep abreast of change; it has helped us get beyond the obvious to get to total costs."

The latest venture in the application of information, which will be tested towards the end of the year, is an extension of Edwards' use of information. Pointon and K Rajagopal, manufacturing director, are currently working on a system which, if successful, will revolutionise manufacturing and distribution, and, in Pointon's words, "dynamically link the factory with the customer."

Edwards' UK and international operations will be linked by a computer network. Into this, sales and marketing will input orders and their estimates of demand during the distribution lead time.

In the first instance, having this information will allow the centre best to allocate stocks – rather than letting the regions hold stocks for anticipated demand – around the world. Near-term production schedules will then be drawn up with reference to these estimates of demand and by applying the same logic to manufacturing as was applied to stocks. If successful, it will cut stocks and improve financial performance significantly.

The system being developed is an application of "just in time" inventory control to stocks distribution and orders worldwide. Rajagopal says that the 1980s way of manufacturing is not good enough. If it took Edwards a month to make something, now it has to take a week. Customer confidence in delivery is, he says, absolutely important. "If the customers don't have confidence in supply then sooner or later they'll *go somewhere else.*" Pointon agrees. "The old cliché is correct: getting the right product in the right place at the right time."

The new management structure, together with the changes in train for stock control and distribution, have set the direction for Edwards in the early 1990s. Behind them has been Rosenkranz, encouraging and chivying his team.

The company has occupied *his mind fully* since late 1982 when he assumed the role of managing director; he is clearly still engaged by the problems and opportunities the company continually throws up. And he has further plans. "There is a plan I have which I believe is right for vacuum technology but the question is how to reach it by evolution and not revolution," he says. Mid-way through the decade he might just attempt to introduce it.

He appears to command considerable respect from his senior managers. To a man they speak highly of his business acumen – his capacity for detail and the quality of his intuition. "Before Danny none of our managing directors had credibility. He inspires loyalty and he will be a difficult act to follow."

His greater responsibilities within BOC will take him away from Edwards, although the latter remains his prime responsibility and will probably remain so for some time. In his absences maybe a natural successor will come to the fore. But Rosenkranz has shown himself to be a master of the matrix and possibly the most difficult test he will have to pass is the one which measures how enduring his influence on Edwards has been once he is no longer there.

How individual input adds value to wage costs

here are two ways for managers to think of workers. One is as a commodity to be t for a fixed price which will fixed rewards. The other is as ource that can be developed whose commitment and vement varies. Many manag- e in the process of switching the former view to the latter.

view of labour as a commod- familiar and has familiar cations. In a traditional manu- ing plant, the speed of the ts the pace at which units of r have to work. A worker has oice in the output he or she the only way of exerting is to withdraw labour.

ditional mass production cre- *the strike as a weapon of* r because it eliminated other of affecting production. The worker as commodity was interchangeable with other units of labour. He or she was not integral to the production process beyond being there and performing set tasks.

But these days there is increasing talk of labour as a resource. Techniques of human resource management are aimed at increasing individual involvement in the production process. The worker's attendance is only the first step. Value is obtained from wages when people contribute their own ideas.

One reason for the change is cost control. The commodity view of labour is exemplified in sub-contracting, where fixed skills are hired for a set time in a simple wage bargain. Many companies have tried to reduce direct labour costs in this way over the past decade, but in many cases it has not worked.

The theory is that costs such as national insurance and wages for direct employees in slack periods will fall. But a CBI survey last September found that 48 per cent of service employers using subcontracting reported higher costs, against 27 per cent who believed that costs had fallen.

Many companies have found that their production process increasingly defies the treatment of labour as a fixed commodity. The complexity of tasks means that workers must be multi-skilled; they must diagnose and repair faults on the line rather than performing repetitive tasks set by the line itself.

But the most important production impetus towards treating labour as a resource is the stress on quality. The more important quality becomes, the greater is the need for managers to get more from their labour resource. A worker must do more than attend and follow instruction in return for wages.

Many ideas of human resource management are based on people working together in teams and contributing their own ideas. The number of supervisory and control layers is reduced to give workers more autonomy. This is supposed to produce a far higher return on wage costs as workers give more.

Employers have often found that these techniques sit most easily within a broader attempt to raise production quality. Within manufacturing, Total Quality Management techniques aim at a culture of constant improvement where all employees try to improve work practices and techniques.

Ordinary workers are clearly integral to quality in service companies. Apart from the physical measures of accuracy and speed of response, customers will most clearly see quality in the way they are treated by hotel receptionists, or check-out operators. Staff become an important company resource.

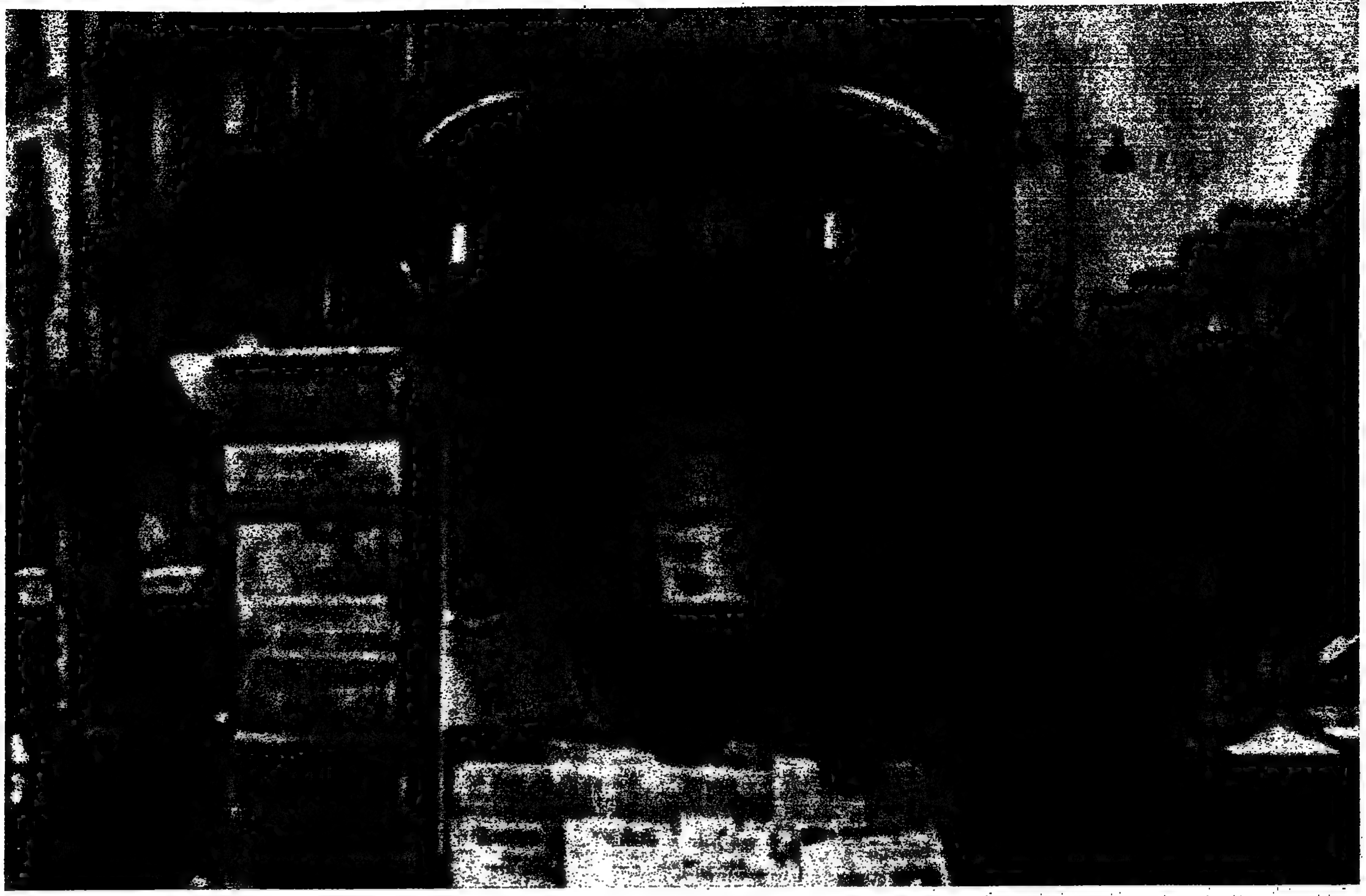
But within manufacturing companies as well, raising quality continuously must involve ordinary workers being treated as a resource. That means training workers in problem-solving techniques and teamwork. Managers must involve workers in planning production rather than treating them as a commodity.

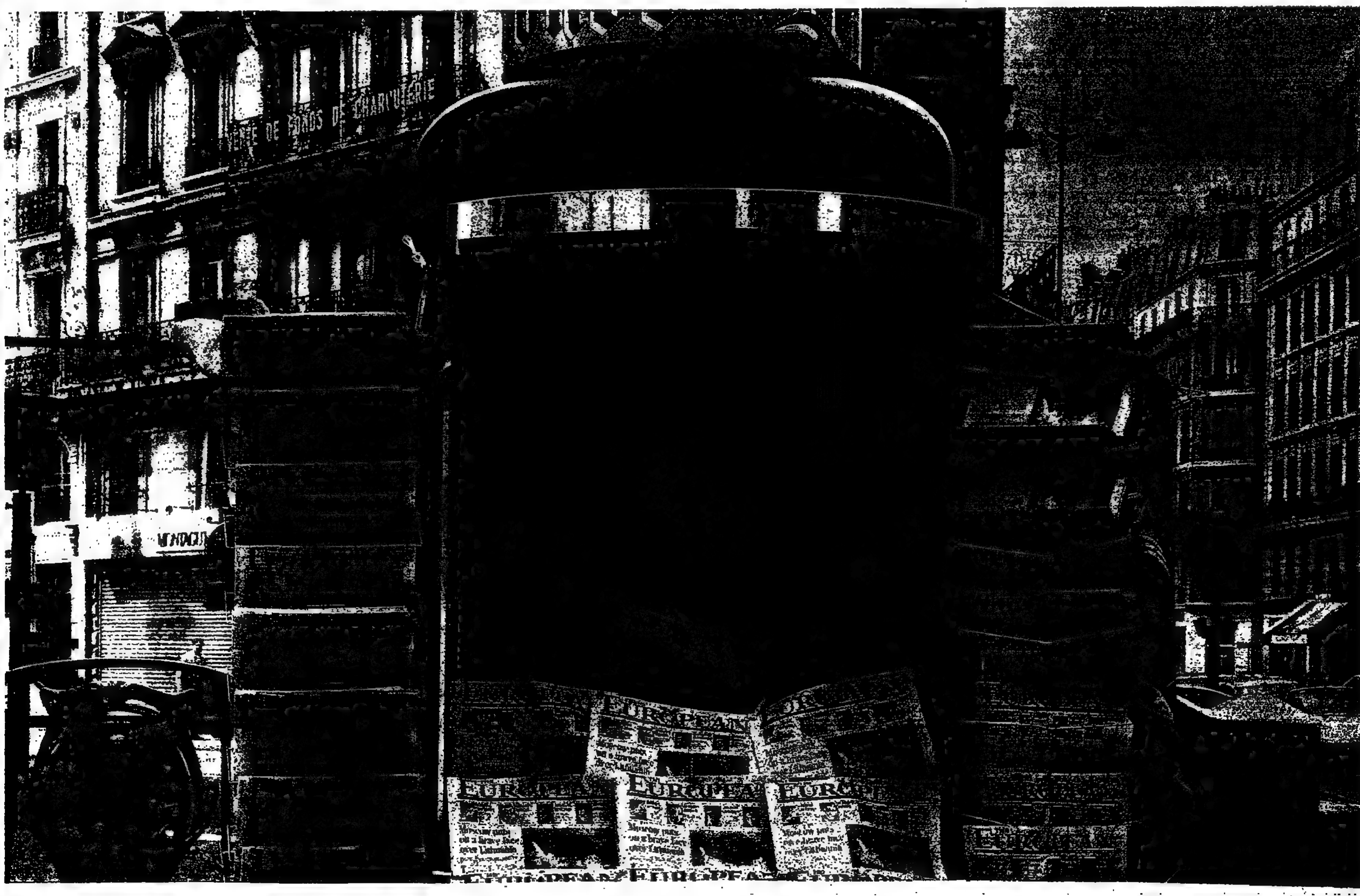
Human resource management is often seen as a means of lessening company vulnerability to collective action in the form of strikes. Because workers are rewarded individually and allowed to contribute ideas, they will be *less likely* to want to withdraw their labour.

If this is so, it is at a clear cost. Workers as a human resource are clearly far more empowered within the production process itself. If they do not want to exert themselves, they can damage output merely by withdrawing surreptitiously from the quality improvement process and not contributing to team efforts.

Furthermore, the investment in workers as resources in the form of training and management support means they may become uncomfortably valuable. If Total Quality Management is to mean anything, real power must be surrendered by managers, and real value must be added to human resources.

John Gapper





ARTS

Private Times

LIBRARY THEATRE, MANCHESTER

This sardonic satire about unrest in the prison system coming to a head under privatisation bursts on us with two-fold topicality: not merely is Britain's penal system bubbling with toil and trouble, but now the country that gave us Rupert Murdoch and a "white Australia" policy is farming out the jails to business. All is set for a savage Swiftian swipe at the new morality.

At times we get it. Kevin Fegan's play postulates the plausible hypothesis that big-time bullion robber convicts have invested their unrecovered gains in a company that buys the prison under a government privatisation scheme. With their accountant installed as governor, the new owners have no need of escape, but comfortably plan their commercial concern with an eye to maximum profit.

The contempt for one-off domestic killers ("not real criminals") is balanced by eagerness for the bread and butter trade ("approved school, Borstal, prison – and he's only 21: a good investment") and the reluctant admission that "nonces" (sex offenders), while loathed, are actually good business since not many jails are willing to take them.

It looks like mischievous Shavian paradox. But the writer, whose *MacAlpine's Fusilier* was cordially noted for its generation-spaning chronicle of Anglo-Irish relations, over-eggs the pudding with any number of bad ovoids: serious comments on the system, the psychological study of an unstable prisoner and the superimposition of *Macbeth* on the story.

As the symbolic blow for liberal studies, a convict production of the Scottish play inspires an escape attempt, the officers' irrational hatred, and at times a thrilling dramatic garnish.

This is summed up by the stormy night when an orderly does the rounds uttering the Porter's speech, noting each oblivious inmate and convincing us that the perpetual knocking is indeed at the gates of hell.

But for the most part the play is wildly diffuse in aims and methods. Craig Hewitt's fine set is all one expects from an assistant to Ultz, Napier, Crowley and other great names in design: a tilted stage with a level revolve in the centre, the whole brooded over by a reclining male nude sculpture like a mountain dominating the landscape.

This does not prevent Lawrence Till's direction unwarrantably slowing down with furniture-shifting between scenes – though the gaps are sometimes excitingly covered by voice-overs reciting ironic verse that combines elements of *Macbeth* with the conspiratorial rollicking of the pre-war *Night Mail* soundtrack. If only the tension, confidence and ebullience were at this level throughout!

But styles veer between naturalism and stiltedly articulate discussion. Themes tangle, points fizzle out. There seem to be several shows here. Mr Fegan was writer-in-residence at a Leicestershire prison for a year and the experience leaves him full of things to say but not much discipline or sense of direction.

Still, better a play that is a mess through too many ideas than too few. And the cast serves it nobly, not least the one woman, Carol Harvey, who distinguishes nicely between con's wife, sour education officer (a political pawn between Home Office and prison officers) and bright-eyed but slowly disillusioned drama teacher.

Dominic Keating, the British stage's habitual jailbird, and Tom Higgins both double as well-differentiated con and screw; and Billy Clarke overcomes some over-dramatic writing to make sense of the Irish murderer who finds salvation in realising that Macbeth is a psychopath. Too much, too confused; but plenty to say.

Martin Hoyle

Viktoria Mullova

WIGMORE HALL

Viktoria Mullova's violin playing is as intimidating as it is impressive. She won the Sibelius Competition in Helsinki in 1981, and the Tchaikovsky Competition the following year, when she left the Soviet Union for the West. Her career has moved ever upwards since, garlanded with praise and the most exalted comparisons. In big concertos her larger-than-life technical attributes, her fearsome attack and steely tone can be matched by the orchestral scale; in recital, as she demonstrated at the Wigmore Hall on Friday, her virtues can be overwhelming in quite the wrong sense.

Driving her way through Beethoven's A minor Violin Sonata Op. 23 and Brahms's D minor Sonata Op 108, Mullova displayed all the characteristics one would expect – spotless intonation married to fiercely exact articulation, boundless reserves of power and concentration. The scherzo of Op.23 was propelled on a single curve of energy, the emotion of Brahms's last violin sonata sculpted in big, dramatic sweeps. It was all in place, as if pre-programmed almost, and delivered with an uncompromising, take-it-or-leave-it directness.

Yet the expressive details of the music were left almost unexplored; perhaps Mullova's approach to duo playing leaves her pianist to fill in the gaps in the subtext. Her partner here was David Golub, a late substitute for Maria-Joao Pires; he provided reliable support but, perhaps conscious of the lack of instinctive shaping in the violin line, tended to contrive his point-making, over-egging the rubato and the dynamic curves.

The Beethoven and Brahms are robust enough to withstand such full-frontal treatment, but bearing down just as heavily upon Schubert's A major Violin Sonata D574 wrings all charm from the music and leaves just notes, perfectly realised though every one of them may be. There is more to Schubert's *Rondo brillant*, too, than showmanship; a bravura wit is required to make it take flight. In any case, charm and wit are not attributes that Mullova's playing exudes in abundance; these performances smiled as little as the violinist.

But then Mullova gives so little of herself; it seems paradoxical to characterise such energetic, propulsive playing as cold and detached, but the immaculate technique is used as an impermeable barrier behind which the violinist's own personality can hide in safety. Yet her potential is boundless, just as soon as the inner and outer selves can be connected in a meaningful way.

Andrew Clements

The Willis Faber Dumas offices in Ipswich by Norman Foster, which won the new British prize for the best architecture of its time. It is an elegant curved glass block which has survived changes in fashion style

ARCHITECTURE

Rare gifts appropriately rewarded

Every year an American millionaire, Jay A. Pritzker, the president of the Hyatt Foundation gives a prize of $100,000 to the living architect "whose built work demonstrates a combination of those qualities of talent, vision and commitment . . . to the production of significant contributions to humanity and the built environment through the art of architecture."

It has become fashionable to describe the award, now in its twelfth year, as "the Nobel of architecture." This year there is, for the first time a British prize that is intended to commend "the best architecture of its time anywhere in the world." The only condition is that the architect must be British.

The award is called the Royal Institute of British Architects Trustees' Medal and it is sponsored by Marley plc. The buildings that are to be considered for this major award have to be older than seven years and younger than 25.

The first recipient of the Pritzker "Nobel" prize was Philip Johnson, an American architect capable of stimulating the architectural debate as much by his refusal to toe any stylistic line as by his actual architectural achievements.

Johnson has, over the years, been followed by the inevitable list of great American architects who seem to occupy permanently the pantheon of current fame – Kevin Roche, Ieoh Ming Pei, Richard Meier and Gordon Bunshaft.

It has often seemed as though the award, which is usually judged in New York at a lengthy slide show at the Museum of Modern Art, is determined to canonise the American apostolic successors of the Bauhaus.

But that would not be an entirely fair assessment of the award's record. Gottfried Boehm, who is a German expressionist architect working in an almost Gothic manner in concrete, was a forgotten master rediscovered and praised for his intense originality by the Award.

James Stirling, who plays extraordinary codas on the theme of modernism, is the only British recipient of the prize (in 1981). The choice of the Austrian Hans Hollein showed that post modern diversity was not too much for the jury to swallow, and last year's choice of Frank Gehry from America indicated an openness to some of the wilder sources of recent architectural expression.

This year the prize is awarded for the first time to an Italian architect and the presentation ceremonies will take place in Venice, at Fiat's Palazzo Grassi, in June. The choice of Aldo Rossi from Milan marks a willingness to commend theory as well as practice.

I have long enjoyed the way that Rossi develops the classical basis of architecture in a decidedly austere and monumental way. His work is rooted in the quasi-Surrealist school of Italian artists like Giorgio de Chirico. But Rossi's visions are inhabited.

It has been fashionable to think of Rossi as also inspired by the architecture of Italian fascists and he long ago made a strong defence of "the great architecture of the Stalinist period." Some of his more monumental public housing schemes in Italy do indeed weigh as heavily upon the earth as some of that dictator's follies.

It was in the cities of the dead that Rossi was first taken seriously as an architect. His strict formality and relentless geometry produced a moving and powerful cemetery at San Cataldo in Modena. The cubic ossuary set within the bleak angular cloister is both powerful and moving. There is little hope in the cemetery and, alas, none of the Italian extravagance that still characterises so many family monuments in Italy.

It is from these cold roots that Rossi has flowered. His recent proposals for the new school of architecture for the University of Miami at Coral Gables is positively cheerful with domes, palm trees and entertaining follies. America certainly seems to remove the deadly monumentality from his work. The simple wooden houses at Mount Pocono in Pennsylvania which were just completed are intelligent, traditional and almost festive.

Perhaps Rossi's best known work was his temporary floating World Theatre that was moored in Venice. It had a pointed octagonal roof and moved like a lightship among the domes of Venice with a cool wit of its own.

This wit seems to have deserted Mr Rossi when it comes to his proposals for some offices as part of the Canary Wharf scheme. Cold rational stone clad boxes with low slung curved roofs will sit at the feet of the unnecessary giant tower that blights the centre of Canary Wharf. Rossi claims that his Canary Wharf scheme is influenced by "the Shakespearean world of Venice and Verona." It must be the mercantile rather than the poetic element that has inspired him.

Many of the elements of Rossi's stylistic development are brought together in his, as yet unbuilt, plans for the German History Museum in Berlin. If this great project is ever built (Rossi was the competition winner) it will be an unlikely tribute to fascist forebears. Speer-like classicism is mixed with arbitrary geometry and elementary shapes. Rossi is a powerful architect who works on the monumental scale. He is strong meat and a brave choice for the Pritzker.

*

The new British prize for the best architecture of its time has been awarded to Norman Foster (surely the next Pritzker winner?) for his Willis Faber Dumas offices in Ipswich which were completed in 1973.

This is the famous, and still extraordinary curved glass block that stands on an unlikely site. Like a huge grand piano, the block has an elegance that is rare with its slender floors floating behind a glass skin. The work had survived changes in style in fashion because, like all of Norman Foster's work, it has a basic technological integrity.

It is sad that Foster does not build more in Britain – but an early glimpse at his London headquarters for ITN shows that he is going to produce another classic. Foster and Rossi share the glittering prizes because they both work from a hard centre of cold rationality that is timeless and often visually perfect. Rare gifts appropriately rewarded.

Colin Amery

Michelangeli

BARBICAN HALL

The pianist Arturo Benedetti Michelangeli divided his programme last Thursday between Beethoven and Chopin – which may not seem as drastic a division as it actually was; for between Michelangeli's Beethoven and Michelangeli's Chopin, there is a huge and forbidding gap. Sufficiently myopic listeners might have thought they were hearing two pianists for the price of one. (Though you would have to be *very* myopic to miss Michelangeli's uniquely doomy presence).

His Beethoven starter was the mild, piano-friendly little op. 22 Sonata in B-flat, not often heard in public, and scarcely ever like this. Within a few bars it was clear that Michelangeli's sternly respectful view of the work was to exclude the least indulgence in mere pianism. Pearly runs were pebbly, bright octave-skips indifferently harsh; the Adagio, which is strewn with *p* and *pp*, was pedagogically stiff and loud, its graceful arabesques frozen.

Then came the great Sonata op. 111, starting with the risky left-hand drop in octaves divided between both hands. Michelangeli's reading was not grave – no portentous depths were suggested – but intensely sober (no impassioned heights, either).

The main Allegro was a tight-lipped struggle; the variation-movement unfolded evenly, without sidelights, and when the celestial demisemiquavers arrived they came like hail. There was some remarkable control, of course, of a thoroughly saturnine stamp.

The other Michelangeli played Chopin with such exquisite and searching imagination that he made the B minor Mazurka from op. 33, the first Scherzo and the Andante spianato & Grande Polonaise seem rich fare for a half-programme. With the luminous tones he drew from the Mazurka and the delicate shadows, and the unforced expressive insights, we remembered why we had come.

The B minor Scherzo had an original, fascinating treatment: its stressful opening material was suppressed to a fretful mutter, but a huge expanse of melancholy opened up at every *ritenuto*, long sighs gently breathed.

Michelangeli played the Andante spianato here not long ago. This time it was less silken and idyllic, more firmly pointed, and the interlude-cadences freighted with thoughtful feeling. His Grande Polonaise admitted three or four times to being a dance, somewhere long ago, but mostly it was a dream of soft, unhurried brilliance.

David Murray

Paddy's Market

TRON THEATRE, GLASGOW

Two years ago *The Steamie* served up a warm, vitamin-packed slice of communal Scottish urban life that is still being gobbled up by audiences and is set for a national tour this autumn. The chef was Tony Roper, ex-miner, shipyard worker, labourer and now actor. *The Steamie* was his first play as a writer. His second is already sold out for its run at the Tron as part of Glasgow's Mayfest.

Given the affection and recognition of Saturday's night's strongly local audience, it seems presumptuous of the outsider at the family party to voice reservations. The play is inspired by the street market north of Glasgow Green, a jumble of barrows and stalls sharing with Harrods the boast of selling anything, though aimed at a different clientele.

A brief shadowy prologue depicts the market's birth: a destitute Irish labourer sells his shovel, then his coat and hat, and sees the entrepreneurial light in a way to gladden the most immaculately Thatcherite heart. We then switch to the present, a Caledonian Petticoat Lane (but more genuine), filled with characters and oddballs, both vendors and customers. Without exception, they are wryly lovable.

Here resistance sets in. The play is a succession of set pieces – significantly, audience applause greeted the end of some scenes – when it should be a seething, jostling kaleidoscope. After two and a half hours the thread that links what has been whittled down to a series of anecdotes is tenuous; it all looks self-conscious and contrived.

Kenny Miller's set drapes the sides of the auditorium with old clothes and backs the action with a row of lock-up booths and a coffee-stall. Michael Boyd's direction evokes first-class playing from a good company; but ultimately criticism boils down to listing the cameos since the work's construction is simply a string of vignettes, some more successful than others.

The opening dialogue between two women stall-holders is self-indulgently droll, and it needs Russell Hunter to inject a dash of astringency with his angry old man. Whimsically painting wellies green for upmarket punters, confusing yuppies with muppets, he nevertheless rages against old age and the dying of his particular light with real fury, an antidote to the general cosiness.

The humour is less that of human observation than a dry-run for a sitcom, complete with caricatures. Some are wickedly recognisable: the sibilant theatre designer (John Stahl) searching for cozzies for his new adaptation of *Tarzan*, in which the hero appears naked but for a miner's helmet and handbag ("Too virginal," he murmurs, rejecting a lace wedding shawl). Glaswegians who remember a jock-strap (and nothing else) clad Hamlet will be in no doubt that this is an *hommage* to Glasgow's most famous theatre just across the river from here.

The trouble with trying too hard to be funny is that it leaves the serious moments uneasily stranded. In spite of Anne Marie Timoney's unsentimental performance, the portrait of the woman whose stolen baby was never found and who now lavishes love on the dog she wheels round in a pram, falls flat, dropped unprepared, as it is, into the comic routines and relentlessness jokiness.

By this time the play has started to ramble, a series of disjointed reminiscences to be rounded off with a homily from a wise old bird to a doubting teenager on the pride and values of the market. Even as a song of praise to a local institution the piece is ambiguous in intention; a patriotic statement turning into a stand-up routine.

Martin Hoyle

Mozart operas

ROYAL COLLEGE OF MUSIC

An invitation from one music college to another has brought what may be the first in a series of Anglo-Italian exchanges. At the weekend the Scuola di Musica di Fiesole took up residence in the Britten Theatre at the Royal College of Music, where the students are presenting concert performances of two Mozart operas, *Cosi fan tutte* and *Le nozze di Figaro*.

As they have already given fully-staged productions of the operas on tour in Italy, it is a shame that they could not do so here, for the master-classes the singers have attended with Claudio Desderi will surely have taught them a good deal about how to put the Mozart comedies on stage. Desderi, well known to Glyndebourne audiences as an outstanding comic actor, is the driving force behind the school's Mozart-Da Ponte project.

It is his professed aim in this course to present a style of Mozart interpretation that is "very Mediterranean." Desderi himself conducts and does so with a drive and intensity that just about excuse the very extreme manner in which he pulls the music about. The young players of the Camerata Musicale Fiesolana clearly have to know his interpretation inside out.

The vocal standard of the performances is generally on a par with a good night at one of the London colleges. If there is a special pleasure to be had in hearing Italians sing Mozart, it comes in the recitative and the character roles, which have always been Italian specialities. The Despina of Maura Maurizio was a delight, full of bubbly charm and making every word of her role sparkle.

Its Despina apart, the performance of *Cosi fan tutte* on Friday had its ups and downs. Antonia Brown made a sensitive Fiordiligi, without reaching the full stature of the role, and there was a Dorabella full of temperament in Marina Fratarcangeli, of whom we might well hear more. But the outstanding voice of the evening was the Guglielmo of Roberto Scaltriti, who has already undertaken some professional engagements in Italy.

On Saturday, the cast of *Le nozze di Figaro* was more evenly balanced. Maria Costanza Nocentini's appealing Susanna was paired with a peacock-proud Figaro in Piero Guarnera, who made much of "Aprite un po." The Countess was sung by Rossella Ragatzu, potentially a soprano voice of some strength and beauty, and the English baritone George Mosley, a former Fiesole student, stepped in at the last moment to provide a broadly-phrased, dignified Count.

There is a further performance of *Cosi* tonight and *Figaro* will be repeated tomorrow, but please note that the casts will be different.

Richard Fairman

The Cat and the Fiddle

CARNEGIE HALL

In the Jerome Kern centenary year, 1985, Carnegie Hall revived some of Kern's Princess Theatre shows in its Recital Hall, which has just about the same intimate dimensions and an under-300 capacity as the Princess Theatre had.

The shows were a hit, and they have continued. It was a joy to hear musicals unamplified. John McGlinn, their conductor, has a Mozartian lightness and liveliness of touch (I wish the Met would turn some of its Mozart over to him).

The original orchestrations – which were souped up and soggied in later revivals – have been recovered and restored. The alert instrumentalists include those whom on other nights we hear playing Babbitt and Elliott Carter. The performances have class.

This year's Carnegie Kern was *The Cat and the Fiddle*, a 1931 musical of merit, post-*Show Boat* but in its intimacy a successor of the Princess Theatre pieces.

The plot of *The Cat and the Fiddle*, set in Brussels and Paris, dramatises the competition of the peppy, rhythmic American music that its American heroine, Shirley, writes ("She didn't say Yes, she didn't say No"), and the romantic, winning, Austro-Hungarian schmaltz composed by its Rumanian hero, Victor.

Their loving combination produces a hit show. Ninon Vallinonce recorded the hit number, "The night was made for love." The book, by Otto Harbach, is kin to that of the *Ariadne* prologue, and it is a cut above that of last year's Carnegie Kern, the frivolous *Sitting Pretty*, even though that was by P.G. Wodehouse.

Over the years, Carnegie has assembled something like a Kern company, and it seems to have the pull to attract people for a week (*The Cat and the Fiddle* had six performances) from their Broadway assignments in *Cats*, *Les Miz*, or whatever.

Shirley was sung by Judy Kaye, ex-*Cats*, who along with Joan Morris is one of my favorite American sopranos for her command of words, timing, and tones. Victor was David Gaines, on leave from *Les Miz*, who was captivating. Odette, the Other Woman, was cleverly played by Angelina Reaux. And throughout the big cast there was not a weakness, not a dullness.

Andrew Porter

ARTS GUIDE

May 11-17

MUSIC

London

English Chamber Orchestra. Tchaikovsky 150th Anniversary concert. Includes Serenade in C, Elena Firsova's *Autumn Music* written in memory of the Russian composer. Barbican Hall (Mon) (638 8891).
Moscow Radio Orchestra conducted by Vladimir Fedoseyev. Vladimir Ovchinikov (piano). Tchaikovsky, Prokofiev, Rachmaninov. Barbican Hall (Thur) (638 8891).

Paris

Carte Blanche à l'Alto. Concertos for one or two altos (Tue). Auditorium du Louvre (47203637).
Eliane Rodrigues (piano). Bach, Chopin, Schubert, Villa-Lobos (Tue). Auditorium des Halles (40282828).
Jean-Pierre Rampal (flute) and **John-Steele Ritter** (harpsichord). Bach's Sonatas (Wed). Théâtre des Champs Elysées (47203637).

Brussels

Aga Winska (soprano) accompanied by **Danial Blumenthal** (piano) in a programme of Bach, Handel, Mendelssohn, Mozart, Pergolesi and Wolf (Tues). Palais des Beaux-Arts.
BRT Philharmonic Orchestra conducted by Leopold Hager with Jan Van Reeth (flute) in a programme of Martin, Mozart and Prokofiev (Thur). Maison de la Radio.

Amsterdam

Netherlands Chamber Orchestra with Glen Wilson (piano) and Herre-Jan Stegenga (cello). Mozart, Tchaikovsky (Wed). Beurs.

Bonn

Friedrich Gulda piano recital. Mozart (Thur). Cologne Philharmonie.

Frankfurt

Orchestre Philharmonique De Monte-Carlo conducted by Lawrence Foster, with Gil Shaham (violin). Lalo, Brahms, Dukas (Tues). Alte Opera.

Rome

Carlo Grant (piano) playing Schubert, Chopin and Liszt (Thur). Teatro Ghione (6372294).
Giuseppe Sinopoli conducting a concert performance of Wagner's *Siegfried* with sopranos Janis Martin and Barbara Carter, contralto Florence Quivar, tenors Siegfried Jerusalem and Horst Hiestermann. (Wed). Auditorium in via della Conciliazione.

Florence

Shirley Verrett singing Schumann, Schubert and Brahms accompanied by Christian Ivaldi (Thur). Teatro Comunale (2779236).

Milan

Franco Gulli (violin) and **Enrica Cavallo** (piano) playing sonatas by Beethoven Brahms and J. Strauss (Wed). Conservatorio G. Verdi (80.91.26).

New York

New York Philharmonic conducted by Zubin Mehta with Alfred Brendel (piano). Brahms, Bartok, J.C. Bach (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Kyung-Wha Chung violin recital with Phillip Moell (piano). Handel, Prokofiev, Grieg (Wed). Avery Fisher Hall, Lincoln Center (874 6770).
Da Capo Chamber Players. Elena Forsova, Dmitri Smirnov, Schoenberg-Webern (Thur). Kaufmann Hall (996 1100).

Washington

National Symphony Orchestra conducted by Yuri Temirkanov with Alicia de Larrocha (piano). Weber, Mozart (Tue); Yuri Temirkanov conducting with Luigi Alberto Bianchi (violin). Liadov, Tchaikovsky, Shostakovich (Thur). Kennedy Center Concert Hall (467 4600).

Chicago

Chicago Symphony Orchestra conducted by James De Preist with Jeffrey Siegel (piano). Adams, Rachmaninov, Bartok, Lutoslawski (Thur). Orchestra Hall (435 6666).

Tokyo

Mischa Maisky (cello), with the Tokyo Metropolitan Symphony Orchestra, conducted by Hans Zender. Beethoven, Dvorak, Brahms (Wed). Tokyo Bunka Kaikan (882 0727).
NHK Symphony Orchestra, conducted by Wolfgang Sawallisch. Beethoven programme (Thur). NHK Hall (465 1781).
Leona Mitchell (soprano) with **James Wong** (piano). Debussy, Handel, Duparc, Wolf (Thur). Showa Women's University Hitomi Memorial Hall, near Sangenjaya. (353 2242).

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A freer EC car market

FOR AN industry which claims it has nothing to hide, motor manufacturers and dealers appear decidedly alarmed by the UK Monopolies and Mergers Commission's planned investigation into new car prices. There is disturbing evidence that British consumers are getting a raw deal, which underlines how far the European Community still has to go to achieve an integrated market in cars. The Bureau of European Consumer Unions found last year that UK pre-tax car prices were among the highest in the EC, averaging a third more than in Belgium. Though car makers dispute the exact figures, and UK prices appear to have softened recently, Britain has long offered unusually attractive margins.

The MMC's search for an explanation is due to focus heavily on exclusive dealer franchises. Though car makers are required by EC rules to supply their products freely across frontiers, there are suspicions that the exclusive dealer system, coupled with differing national type approval standards, has served to frustrate price competition, particularly from "grey" imports.

Exclusive franchises, which are currently exempted from EC competition law, cannot be solely responsible for high prices, since they are not unique to Britain. However, their justification – that distributors need an assured market if they are to invest in spare parts and after-sales service – needs to be re-examined. The greater reliability of modern cars and the growth of independent servicing facilities weaken the case for treating them differently from other consumer goods.

Unconvincing arguments

Industry arguments that right-hand drive pushes up the price of UK car imports are unconvincing. If that were so, why should many British-made cars cost less abroad than at home? A more likely source of distortion is the 11 per cent limit on Japanese imports' share of the UK market, which have failed to strengthen the UK-owned car industry but have encouraged Japanese exporters to maximise their margins. Britain's generous tax concessions on company cars, which account for about two thirds of new car sales, may also have played a role, though the evidence is ambiguous.

But whatever the reason for high British prices, they are a reminder of the continued segmentation of the EC car market, where national restrictions, divergent technical regulations and fiscal distortions fragment demand, raise costs and blunt competition. Regrettably, European car makers have often abetted governments in perpetuating these barriers. Fear of Japanese competition, in particular, has delayed technical harmonisation for years and, more recently, has led to a complex wrangle over the future shape of EC external trade policy.

Import restrictions

A single market in cars will remain a distant dream while Britain, France, Italy, Portugal and Spain continue their long-standing national restrictions on Japanese imports. As well as sheltering local car makers, the curbs have protected EC sales by producers in West Germany, the only large Community country without import restrictions. Small wonder that Volkswagen has joined French and Italian car makers in demanding that the Japanese accept lengthy EC-wide import restraints after 1992.

Advocates of continued protection stress the European industry's need to adjust. What that really means is that inefficient car makers should be subsidised by the rest of the economy. One indication of the cost is a recent estimate by Sussex University economists that freeing the EC of all trade restrictions on cars would yield welfare gains worth almost treble the profits lost by the European motor industry.

While the EC market remains segmented and subject to limited competition, European car producers will lack incentives to match the Japanese by cutting costs, accelerating product development and expanding aggressively across national frontiers. The MMC reference has thrown down a challenge which should be taken up in Brussels and other EC capitals.

Plight of the borrowers

CONSUMER credit in Britain has become highly popular – perhaps too popular. According to the definition of the National Consumer Council it has climbed from £10bn in 1979 to well over £40bn today, taking in a variety of bank lending, instalment credit, outstandings on credit cards and retailing credit. This is quite apart from loans for house purchase, the outstanding level of which has soared from £45bn to £260bn over the same period.

This huge growth in credit has had strong macroeconomic effects, leading to the UK's current economic problems of excess demand, inflation and trade deficit. But the microeconomic consequences are also important. At the level of individual saving and spending decisions society has had to cope in the 1980s with an unfamiliar phenomenon – the availability of almost unrestricted credit. It might have been wiser to open the taps more carefully.

The good news is that millions of families have used the credit markets to finance the acquisition of housing assets, and to sustain a lifestyle oriented towards the use of expensive durable goods. But there is a debit side to the credit boom. Greater temptation is experienced by the young and the feckless. And at a stage in their lives most people are encouraged to take on a large volume of debt, which exposes them to risks in the event of misfortunes like illness or unemployment.

Debt problems

Organisations such as the Citizens Advice Bureaux are becoming stretched by the need to cope with debt problems. The incidence of mortgage arrears and repossessions is still relatively small as a proportion of mortgaged households, but has been rising sharply (with a renewed surge in the second half of 1989). By 1987 it was estimated that more than 2m households were having difficulty meeting commitments.

The NCC's report, *Credit and Debit*, seeks to place more responsibility on the lenders. They should be required to assess an individual's capacity to repay, rather than just check that he or she has no history of credit problems. Debts should be unrecoverable through legal procedures unless it can be shown that the lending was prudent.

Such interference in the credit granting process must be considered carefully, however. It implies that credit may be withheld from people who seek it. If they find it is not available from respectable institutions they may look elsewhere, to sources which will certainly be more expensive and may be of dubious legality.

Consumer education

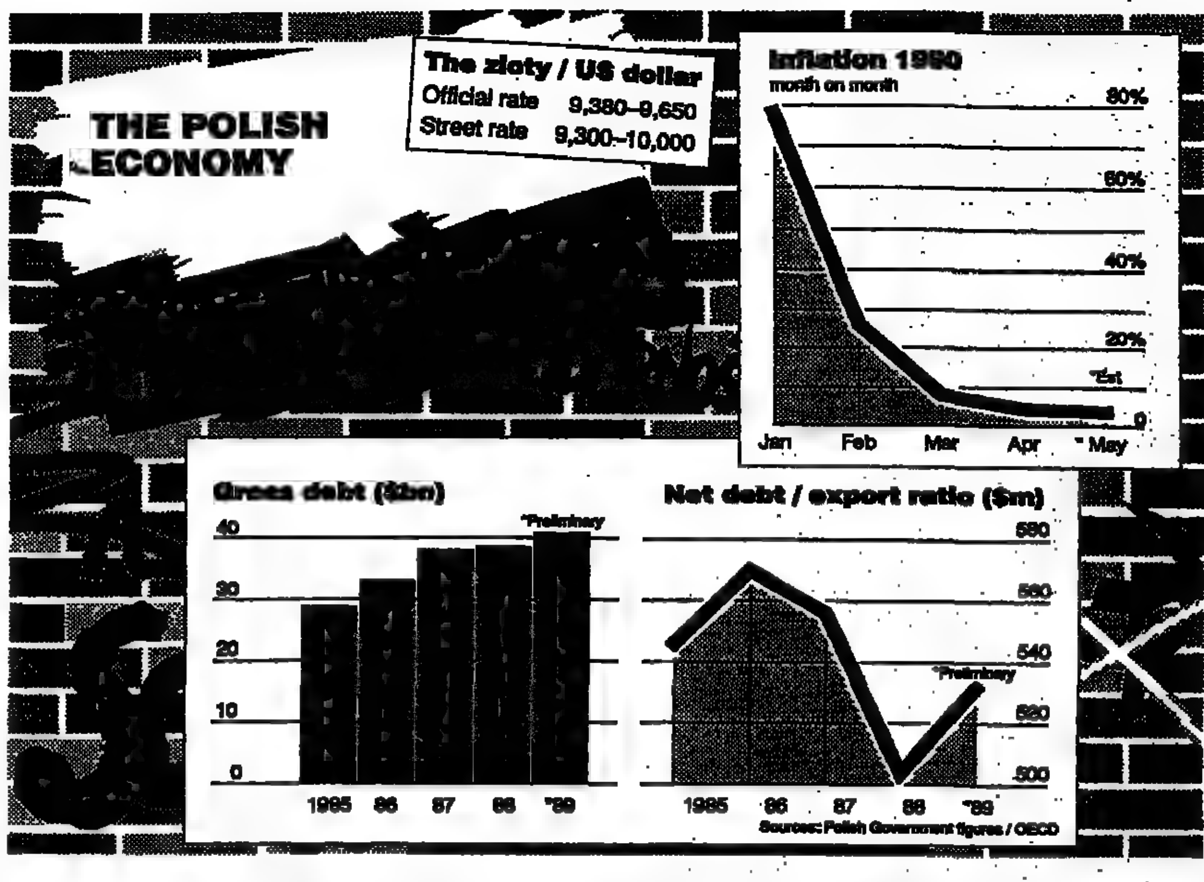
In the longer term the appropriate remedies are improved consumer education and enhanced competition. But in these respects there are still deficiencies in the consumer credit market. Competition primarily takes the form of promotion rather than of cuts in interest margins; many consumers fail to understand the simple mathematics of borrowing. Even where interest rates are emphasised, as in the wave of promotion of low start and other special mortgages, the claims are often deliberately confusing and misleading. The high margins in consumer credit are attractive to lenders. The danger is that this permits them to go after relatively risky advances because they can build provisions for high write-offs into their cost structure. But the bankers' cushion can lead to a hard landing for many of their customers. Controlled arrears can be highly profitable, says the Council's report.

Over time, new patterns of behaviour will develop. In recent years many people, thanks to the unexpected rise in house prices, have become asset-rich but cash-poor. Borrowing is a logical way to release locked up wealth, but it requires skills in financial management that many people lack. The latest to jump on to the housing bandwagon have not even benefited from capital appreciation, and are simply under severe pressure.

In these circumstances there is a good case for shifting more of the risks on to the lenders, but a better one, in the long run, for encouraging a more informed credit market.

John Lloyd says worse is yet to come for the Solidarity-led Government

Poland's delicate balancing act



The magnitude of the Polish challenge has now become clear. What was known in theory is now hard practice. The previous, Communist governments of Poland sought to keep the peace, themselves in power and, in the 1980s, Solidarity at bay by promoting a standard of living the country could not afford. They failed. Now, a Solidarity-led Government must pay the bill. Four months on, how is it faring?

The men on whose stooping shoulders this enormous burden has fallen – Prime Minister Tadeusz Mazowiecki and his Finance Minister, Dr Leszek Balcerowicz – have already accomplished much. Accepting that inflation was the first enemy of the post-Communist state, they introduced a shock treatment which has seen living standards reduced by a third in the first four months of this year.

Theirs is the most sweeping economic reform yet implemented in any state in eastern Europe, and much hinges on its success – not least in the Soviet Union, where even radical reformers have thus far refused to contemplate anything so abrupt.

The Warsaw Government has cut subsidies on food, housing, energy and transport; jacked up interest rates to more than 40 per cent (although they have subsequently fallen to about 12 per cent); and devalued the currency, from about 6,500 Zlotys to the dollar to the present 9,500. Prices were liberated while wages were simultaneously clamped down.

To call this a shock is something of an understatement. In Poland the basics of life had long come cheap. The price subsidy system was created to serve a high ideal – the excision of need and greed from society. And although it had long since ceased to serve any end other than to pacify the populace, it still prevented absolute need.

For those who really were dependent – pensioners, the low paid, those with large families – this was better than the hunger older Poles remember. For those not so dependent, the guaranteed provision of a job meant an existence of unpoor, unfearful, undemanding sloth, oiled by cheap booze. To say, then, that communism was "hated" was true only to a point. Its effects were imbibed. A new layer of habits of mind and body was built on assumptions of low expenditure and low effort.

The Government wants hard currency, foreign expertise and technology: the workers want their inheritance

Poland added a further dimension. The higher militancy of its working class – coupled with the Soviet Union's cautious handling of Poland – meant that successive regimes were particularly vulnerable to pressure from below.

After the suppression of Solidarity in 1981, the efforts of the Jaruzelski administration to keep the peace were frantic and immensely expensive. Pushed by Solidarity in the countryside, the Government quadrupled producer prices in nominal terms. Some of this was passed on – but from 1982, real retail prices declined, and continued to go down until 1988, at a huge cost to the state which it could meet only by continued borrowing.

Solidarity has thus inherited a mess for which it has, in a curious and unacknowledged sense, been responsible. Formally outlawed through most of the Eighties, its massive subterranean presence, closely allied to the most powerful national church in Europe, forced the Communists to try to provide a living standard its surly subjects were not producing. In retrospect, this might have been Solidarity's easiest period.

But now it is very hard: and nobody has it harder than Dr Balcerowicz. Soft-spoken and direct, he cites the triumphs of his shock therapy – the slashing of inflation and the stability of the exchange rate, which is thought likely to hold out against pressure for at least the next three months. The currency, widely seen by Poles as worthless, has again acquired some value: Mr Andrzej Olechowski, deputy governor of the Bank of Poland, calls the exchange rate "the jewel in our crown." Queueing has not been eliminated, but it is reduced. Inflation is probably about 5 per cent this month (78 per cent in January) and exporters racked up an $800m trade surplus in the first quarter, as they found new customers abroad.

The Finance Minister says: "The Government will not relax our stance prematurely. The experience of some Latin American economies shows what happens if you do. The macroeconomic programme remains in place. We are now looking to micro-economic measures, such as privatisation."

But there is, in the Government, a sense of dread: a recognition, which Dr Balcerowicz himself expresses, that the worst is yet to come. More people are really poor: some, such as smallholders faced with steeply rising bills for inputs and sluggish price increases for produce, may have seen living standards halved; unemployment now nudges 300,000.

There is disappointment, too – notably with the behaviour of managers. "They responded, mainly, by putting up prices, and have been slow to adapt," says Dr Balcerowicz. "Only some are now looking at costs." Not many Polish managers are motivated for change – not just because of their inexperience of a market system but also because they are under threat of forced resignations, as Solidarity activists clamour for the replacement of the old *nomenklatura*. Says Dr Waldemar Kuszinski, chief economic adviser to the Prime Minister: "Even those companies which are efficient may not survive, because of their technical backwardness."

A second source of disappointment is the West. Large commitments from leading western companies have been few: Asea Brown Boveri has formed a joint venture to make turbines with Zamech, valued at $5m: and British Sugar Corporation has bought three refineries, at between $2m and $5m. The most highly publicised, the possible purchase of the Gdansk Lenin shipyard by Mrs Barbara Piasecka-Johnson, the US heiress, came to nothing when her offer, based on an Arthur Andersen estimate that the yard was worth between zero and $6.5m, was turned down by workers and management. Since then, the Government has said it will turn the yard into a joint stock company and sell Zs400bn worth of shares at Zs10,000 each, while guaranteeing subsidies for the next year.

Jacek Kuron, the great dissident figure brought into Government as Minister of Labour ("I represent the Government to the workers, and the workers to the Government") growls that "foreign experts come over here, they stay in the good hotels, they give a seminar, write a report, go home. I don't go to their cocktail parties. I can buy my own booze."

Foreign experts there are aplenty: most famously, Dr Jeffrey Sachs from Harvard, an adviser to Solidarity before it helped form the present Government and the largest outside influence on the programme; Dr Jacek Rostowski and Dr Stanislaw Gomulka, both Anglo-Poles from the London School of Economics, are installed as advisers in the Finance Ministry. But, says Dr Ceslaw Paga, himself a (Polish) adviser in the ministry: "The foreign experts say do this and this, but we have to say, look, the banking system doesn't work, the telecoms don't work, and most of all we have to have regard to the psychology of the people."

That concern becomes ever deeper. Within the enterprises, an increasingly powerful movement has begun among the works councils to have the assets handed over to them. Many of their members are Solidarity activists: in many cases, says Mr Jerzy Osiatynski, the Planning Minister, "they ran enterprises when managers, who did not know how to adjust, simply disappeared. They took low wages and unpaid holidays so that the firms could survive."

They thus have a store of moral capital – and a tradition of militancy: more than any other of the former "Workers' States", this most anti-Communist of countries really is a workers' state. When Dr Balcerowicz addressed the Solidarity Congress in Gdansk last month, he was told by one delegate: "Your name is cursed by pensioners, farmers, single mothers, unemployed graduates."

Following the introduction by Dr Balcerowicz of draft bills on privatisation in the parliament in April, the micro-economic reforms on which he places so much hope should soon receive a legal underpinning. The present Ownership Transformation Agency, under the leadership of Mr Krzystof Lis, will – under the Government draft – move out of the Finance Ministry to become a full-blooded privatisation agency, charged with selling off the huge state sector. Enterprises cleared for privatisation will be turned into joint stock companies and their shares sold over two years: 10 per cent will be offered abroad, more with the permission of the Foreign Investment Agency.

Up to 20 per cent of the company stock is to be offered to workers on easy terms, and ministers say they are keen for "genuine" co-operatives to be formed, perhaps using employee share ownership schemes.

Mr Lis has been adamant that there will be no hand-over of assets to workers. To do that, he has argued, would discriminate between a lucky few working in successful enterprises and the multitudes in unprofitable companies, or working for the state bureaucracy. Nevertheless, the pressure for wider employee share ownership is increasing: a rival draft privatisation bill has been tabled, which argues for privatisation largely through transferring the stock to workers, financed by the workers themselves as well as company profits and bank loans.

Privatisation is now bogged down in argument – the draft of legislation is on its 17th version. Much of the argument focuses on the price at which shares will be sold to workers: more concern abroad has been expressed on whether or not investors will be permitted to take control, and whether or not the workers will be allowed to use their stake to block management change. The Government wants hard currency, foreign expertise and technology: the workers who brought Solidarity to power want their inheritance.

Even if terms attractive to western companies can be agreed, few think foreign investment will come soon and in large amounts. Dr Kuszinski stresses the desperate need for Polish industry to have access to high technology. But he is angry about the extravagant expectations surrounding privatisation. "Poles and foreigners both hold to a myth – that our companies can be easily sold," he says. "There have been a very few large-scale sales so far anywhere, including in Hungary. The examples of Chile and Bolivia show that foreign capital was years in coming after their economic restructuring. In the UK and France, privatisation of a small part

The guaranteed provision of a job meant an existence of unpoor, undemanding sloth, oiled by cheap booze

of industry took years."

In this delicate period, as the Government waits for unemployment to grow, for workers' disaffection to spread, for political parties to capitalise fully on that disaffection, for privatisation to work, for entrepreneurial behaviour to manifest itself, for inflation to stay down, and for the exchange rate to resist pressure – the nerves begin to show.

All the senior officials and ministers to whom I spoke, apart from Dr Balcerowicz himself, thought his squeeze had been too severe. All thought privatisation had been too long delayed, and that the Government was running out of its grace period of popular support. Nobody thought it was going to get anything but worse.

At the end of the first four months, the Polish Government has survived the first hard pounding. But from now on, the pounding only gets harder.

OBSERVER

Looking for space

■ The European Commission without the Berlaymont? Hard to imagine. This starfish-shaped building in central Brussels has become almost as recognisable a symbol of the European Community as the White House for the US, or the Kremlin for the Soviet Union.

But the Berlaymont's owner, the Belgian state, strapped for cash to close its yawning budget deficit, has now asked the Eurocrats to buy the building they have inhabited for the past quarter of a century – for a price, BFr13bn (£228m), that the Commission flatly refuses to pay.

The reason the Commission baulks at paying a price that on the face of it is not wildly out of line with market rates is that it has calculated that at least BFr6bn will have to be spent on removing asbestos from the 1960s-era building and making it conform to the very EC health directives on asbestos the Eurocrats themselves proposed. So far asbestos has been removed from only one of 13 storeys, with considerable disruption.

Some prominent Eurocrats feel now is the time for the Commission, which sprawls over 30 buildings in Brussels (of which it owns only two), to regroup in some larger, more centralised complex. Nato headquarters, on Brussels' outskirts, is not big enough, even if the western alliance was finally pulling down its shutters, which it is not.

Playing hard, the Commission has set the Belgians three options – either they go on leasing the Berlaymont to the EC, or they sell it at a peppercorn price with the EC paying for renovation, or the Commission will move elsewhere.

The Eurocrats say the Belgian Government must decide whether it really wants to continue to host the Common market executive. Of course it does. But this row will not help Belgium's claim to be the emerging capital of Europe.

Prestige job

■ The traders at Smith New Court, one of the few independent securities firms still left in the City, were not answering their mobile phones yesterday. But it sounds as if they have bagged rather a fine name to add to their letterhead – Mr Peter Walker, the former Welsh Secretary.

Smith New Court is valued at only £25m on the stock market, primarily because it is not paying a dividend after it found itself holding rather too many Ferranti International shares. But it is still one of the more interesting City firms to watch, if only because Mr *Michael Richardson*, one of the City's best connected corporate financiers, took over as chairman this month. As a former Cazenove man as well as a former Rothschild banker, he knows as much about broking as corporate finance. It will be interesting to see what sort of imprint he leaves.

Next go

■ Nolan Bushnell likes to compare business to a game of chess. His latest move is that of a grand master. Home computer buffs will remember Mr Bushnell as the young computer engineer who created Pong – the first popular video game – and the cornerstone of the early success of Atari, the Silicon Valley company whose fortunes soared and then plummeted just like the the video-game fads.

Mr Bushnell has now joined Commodore International, an old rival, which struggled in the early days to persuade customers that its "computers" were superior to Atari's "video games." He sold Atari to

"How long has he been going 'moo'?"

Warner Communications in 1976, reportedly pocketing $15m. Since then he has dabbled in a string of high-tech ventures, including the Pizza Time Theatre chain which was designed to introduce children to computers plus a high carbohydrate diet. But none has rivalled the spectacular success and decline of Atari.

After several failed attempts to revive Atari, Warner sold it, in 1984, to Jack Tramiel, former chief executive of Commodore International. The computerised-game rivals of the 1970s are once again in direct competition. This time, however, they are seated on opposite sides of the board.

Hard up

■ It is amazing what you can get free these days if only you ask for it. I read in the latest issue of *The Lawyer* that Burton Copeland, a Manchester law firm, has been granted legal aid to buy a second-hand main frame computer for £5,000 to help it handle the Barlow Clowes defence. It needs the powerful Hewlett Packard to track where the funds came from and where they went. Mr Ian Burton, the firm's senior partner, estimates that there is enough information to fill 2,400 floppy disks, and the evidence makes the paperwork in the current Guinness trial look like "kindergarten" material. Sounds like the trial, which does not even start before next January, is going to be a long one.

Turncoat

■ Mr W.K. "Bill" Brown, the former chief executive of Gold Fields Mining Corporation, was one of the most vociferous critics of last year's failed bid by the South African controlled Minorco for his employer, Consolidated Gold Fields. When asked his opinion of Minorco by visiting journalists 18 months ago he said simply: "They stink," and noted that Minorco's North American subsidiaries, Hudson's Bay Mining and Smelting in Canada and Inspiration Resources in the US, had "abysmal track records."

Gold Fields fought off Minorco but, badly weakened, quickly succumbed to a £3.2bn bid from Hanson. Brown quit Gold Fields in January, and has now resurfaced again – as a director of two subsidiaries of the Minorco he so heavily criticised. On holiday in Florida this weekend, he said of his surprise appointment: "Maybe Minorco took some of my remarks to heart. In any case, they must have realised that in the heat of the battle some rhetorical excess was permissible."

Rain man

■ What do you call a man with two raincoats? Max.

And what do you call a man with two raincoats in a cemetery? Max Bygraves.

William Hall

A utility comes out of its shell

David Thomas and Steven Butler on a management shake-up at British Gas

Mr Robert Evans, the quiet man at the head of British Gas, beginning to deliver on ...omises made when he ...came chairman last July.

A fundamental shake-up to ...ce managers in Britain's pri...tised gas utility closer to ...stomers was one of Mr ...ans top priorities. A big ...ce of this jigsaw will fall in ...ace today, when the company ...nounces the appointment of ... district general managers ...ended to become the visible ...ce of British Gas. For the ...st time, responsibility for ...al company operations will ... vested in one person.

Ironically, British Gas is centralising only days after ...itish Telecom decided to ...andon the district manager ...stem which it adopted at pri...tisation in 1984. BT found ...e system failed because – ...st as in British Gas's plans – ... did not decentralise price, ...y, or investment decisions.

The fact that British Gas ...scribes this as its biggest ...anagement overhaul for 20 ...ars is testimony to the con...rvative, inward-looking ethos ... the gas monolith. Disen...antment with management ...ructures that rely heavily on ...nctional lines of authority is, ...ter all, old hat to the world's ...rge companies.

The public-utility culture so ...grained in British Gas wor...ed the City after the com...any, then headed by Sir Denis ...ooke, was tossed into the ...ublic sector more than three ...ears ago. Mr Evans, a retiring ...gineer who worked his way ...p through British Gas for 39 ...ears, hardly seemed the man ... warm up the investment ...ommunity while steeling Gas ...r growth in the face of com...etition. Yet the utility must ...hange because growth pros...ects in Britain are limited.

British Gas's first forays on ...he acquisition trail under Sir ...enis were little short of disas...rous in Canada, where it ...ought Bow Valley, an explora...ion company, and in New Zea...and, where it failed to antici...ate local nationalist ...entiment in buying Petrocorp, ... gas utility. It looked foolish ...hen it unsuccessfully tried to ...nap up shares of Lasmo, the ...ndependent oil company. And ...t was outmanoeuvred and per...istently beaten back by Mr James McKinnon, the UK gas regulator.

In less than a year, Mr Evans has not erased all the doubts that Gas can cope in a competitive and regulated world, yet if only by avoiding obviously false moves he is gradually raising confidence.

Mr Evans is fortunate to have a cushion – the monopoly of gas supply in Britain – that allows Gas to change slowly. It is sheltered from competition in the household and commercial sector, which accounted for two-thirds of its £7.526bn turnover last year, and is still immune to competition in much of the rest. Mr Evans felt secure enough last summer to demand a full five years for his changes.

The company is facing two quite different problems in its home market:

- First is the saturation of Britain's household and small business gas market. Mr Evans points out that Gas signed up 350,000 new customers last year, the highest number in a decade. Yet he acknowledges the limits to growth: "We have got a high saturation already and given five more years of progress like that, then we would see the market becoming mature." Future profits also look uncertain as Mr McKinnon proceeds with his review of the monopoly-sector tariff formula, to be implemented in two years.
- Second is the opening of the industrial gas market to competition, following a pioneering report by the Monopolies and Mergers Commission in 1988. The commission set out to inject stronger competitive juices into the industry. As a result British Gas must now publish a schedule of fixed prices for large industrial customers, thereby restricting its ability to use its market power. It must also buy no more than 90 per cent of gas from new UK fields, thus guaranteeing gas supplies for competitors.

Quadrant Gas, a joint venture between Esso and Shell, began a long assault on the monopoly this year when it became the first to sell gas direct to industrial customers using British Gas's pipelines. A clutch of other companies, including several North Sea producers, plan to follow the same path. "They are very aggressively marketing out there," is the wistful comment of Mr Evans, who says these competitors will "cherry pick" by offering lower prices to a handful of customers with large loads and undemanding service requirements.

With plentiful gas supplies from the UK, and possible Norwegian imports, British Gas's dominance of this market could be seriously eroded over the years.

British Gas responded directly to this competitive threat last month when Mr James Allcock, British Gas's director of gas supplies, announced revised terms for future North Sea gas purchases. With British Gas facing competitive risks in gas distribution, Mr Allcock offered a menu of contract options aimed at passing commercial risk to the gas producers. British Gas is trying to avoid purchase commitments it may find hard to honour in the face of an uncertain market.

Of course, the utility will not ignore its UK gas supply business, which will supply the bulk of its profits throughout the 1990s. This helps to explain the management reorganisation announced today and a parallel move unveiled last month to compensate customers who receive poor service. The latter initiative meets one concern of Mr McKinnon.

Still, the need to diversify is obvious and this concerns the City because the company is untested. Mr Evans has identified two new legs to the British Gas tripod.

One he calls "global gas." British Gas intends to buy into gas utilities around the world. The deal announced in March to acquire Consumers Gas, Canada's largest local distributor, for C$1.1bn (£563m) is the best example of this strategy.

Mr Evans acknowledges that Consumers Gas, like his own company, operates in a relatively mature market. But he defends the proposed purchase on two grounds. Consumers Gas has a more than adequate 15 per cent return on investment, he says; and an alliance with British Gas would enhance the performance of the Canadian company. "We can bring added value in many things – for instance, our ability to connect customers who lie beyond the normal distance from the mains which most other gas companies would handle," says Mr Evans. The company could serve as a logistical springboard for marketing British Gas technology in North America.

Worldwide exploration and production of oil and gas is the second leg to the diversification strategy. It has already assembled a large UK asset portfolio with the purchase of Acre Oil and part of Texas Eastern. It acquired a "starter-pack" international spread of acreage from Tenneco of the US. Mr Evans makes no secret of his ambitious plans: "Given another 10 years, exploration and production will be as big as British Gas is today and we will be looking at probably as much profit."

This may be an exciting prospect but it is risky. Mr Evans shrugs off doubts about British Gas's expertise in oil and gas exploration, pointing to the company's successful record in the North Sea. But the City has a different view.

It is one thing to manage a successful operation in your backyard – quite another to set off with a fistful of dollars to duplicate this around the globe. The experienced international oil companies repeatedly rediscover the difficulties of achieving a sensible balance between placing suffocating controls over oil explorers and letting the purse strings loosen too much. It is easy for a newcomer to get it badly wrong – especially if that newcomer is a low-risk public utility.

Moreover, doubts persist over the calibre of top management at British Gas. Mr Evans and some senior colleagues seem almost painfully lacking in charisma, in marked contrast to Mr Evans's larger-than-life predecessor, Sir Denis.

But this assessment may be unfair. In his short tenure of office, Mr Evans has shown sound instincts, particularly in his drive to sharpen the company's service performance and to ease its strained relations with the regulator. A utility may need a cautious, even dull person at its helm. Whether the same can be said of a global exploration company is another matter.

LOMBARD

How not to join the EMS

By Samuel Brittan

It is one thing to join an exchange rate mechanism with certain quite wide margins within which the currency can fluctuate, as has been necessary . . . It would be much more unwise to go to locked exchange rates. Some of us remember the times of fixed exchange rates under the Bretton Woods system when we used to hear in the House details of public expenditure cuts, of how we had to let go a great deal of our reserves, and of high interest rates – all at once. Those problems arose from the fixed Bretton Woods exchange rate system. It was broken, and we should be wary of returning to such a rigid system.

Mrs Margaret Thatcher, answering questions on the Dublin Summit, House of Commons, May 1.

THERE is an old Chinese curse: "May your wishes be fulfilled." A variant suitable for commentators is: "May your suggestions be followed." For there is always a high risk that a suggestion will be misunderstood and implemented in the wrong way, and the authors blamed for the ensuing disaster.

A case in point is the suggestion that Britain should join the Exchange Rate Mechanism of the European Monetary System, but do so initially with margins around the central parity wider than the standard 2¼ per cent. This was a proposal I ventilated as early as the beginning of 1979 when Mr James Callaghan was still the Prime Minister. It was inspired by Italy's example in negotiating a 6 per cent margin, giving it a total band of up to 12 per cent, which lasted until this January. Spain joined the ERM on this basis last year, but will have a much shorter transition.

The reason why some of us have advocated early entry for the UK at an *initially* wider margin is to allay the fear of the Treasury and Bank of England that they might otherwise be forced to lower interest rates while domestic inflationary pressures are still strong.

The official inclination is to wait until the domestic conjuncture permits a sizeable reduction in British interest rates relative to European Community partners. But, as the Conservative Positive Europe Group argues, such a conjuncture cannot be relied upon.*

(The Bank of England's anxieties on the inflation front suggest that it may not arise for a long time – certainly not in time to strengthen Britain's influence at the Intergovernmental Conference on Monetary Union due to begin this December.)

For this reason the Group has advocated early entry "at the bottom of a wide band." If funds were attracted to London, sterling would appreciate towards the top of the band, thus giving business a salutary counterinflationary shock and doing something to allay the anxiety expressed by the Bank of England in its new bulletin that sterling is now too low.

A Brussels Commissioner asked recently: 'What makes the British think they will be doing the EMS such a favour by agreeing to join it?'

The wider band compromise will only help to break the inflationary psychology that lies behind cost inflation on certain strict assumptions. It must be very clear that the margins are strictly temporary and that narrowing will begin in months rather than years. Moreover, entry must be associated with a weakening rather than a strengthening of sterling. Otherwise, so far from providing a shock to inflationary expectations, it will just give the impression that sterling will be allowed to crawl down indefinitely to bail out inflationary cost increases.

Unfortunately, some recent remarks of the Prime Minister suggest that she sees an indefinite period of wide margins as a not very disguised way of continuing to operate a *de facto* floating or sinking exchange rate. This fits in all too well with the desire of some so-called supporters of the EMS among Conservative politicians to use it in precisely the way the Treasury fears – as a device to reduce British interest rates.

This would confirm the fears expressed in an Economist article of April 28, the irony of which may not have been appreciated. This envisaged a future under which entry into the ERM at too low a rate would be used to support a pre-election boom and the distorting effects of mortgage interest rates on the Retail Prices Index would be exploited to engineer a sensational cosmetic drop in headline inflation in the run-up to the next election, leaving the unfortunate post-election Chancellor to discover that underlying inflation had got steadily worse all the time.

At least as bad would be the Community charge of bad faith. The EC is committed not to widening margins, but to reducing exchange rate changes, and eventually achieving just that locking-in of parities to which the Prime Minister so much objects. Locking-in is indeed the implication of the Treasury's own paper on an Evolutionary Approach to Monetary Union. Some 11 out of the 12 Community members want to move further towards a common Central Bank (Eurofed) and eventually a single currency.

Any attempt to reverse directions would be a resounding flop. But such talk makes me understand why a Brussels Commissioner from a country normally favourable to the UK began a recent conversation by asking: "What makes the British think they will be doing the EMS such a favour by agreeing to join it?"

The prevailing view is that any British application to join the ERM would have to be accepted, whatever the margins, for political reasons. In a similar spirit it is accepted that Italy (but not Britain) will be a founder member of the more ambitious EMU, even though some central bankers and economists would prefer to wait for signs of success in reducing that country's horrendous Budget deficit. But if too many funny tricks are tried the acceptability of British membership could come into question.

* *The Time is Ripe*, Brendan Donnelly, 61 Leopold Rd, London,N2,8BG.

LETTERS

Some Thatcherite zeal is needed in training youths

From Mr Michael Leech.

Sir, Your worthy leader of May 9 ("The training challenge") merits further debate.

One of the main reasons for the historical failure of British vocational training and education has been the perpetuation of the academic and vocation divide. Our very governmental infrastructure reinforces this with its separate Departments of Education and Employment. Such wrong signals continue to nurture our anti-industrial culture.

You applaud the concept of training credits as a welcome willingness to embrace new ideas, but again we risk implementation at half-cock because, through our faulty academic and vocational perspective, we are almost unwittingly targetting only those 16-18 years-olds who leave school.

You are very bold, yet correct, in your assertion that all 16-18 year-olds should engage in some form of part-time (vocational) training, not least because of the personal growth which would ensue, at a pace to suit each individual's learning capacity.

This must mean making training credits available to all 16-18 years-olds, including those at school. Not to do so will reinforce the academic and vocational divide, and pejoratively label, possibly for life, those young people who make a decision to leave school at 16 and take up the training credit option.

If we made credits available to all, we would actually see a significant boost to the staying-on rate in schools, colleges and work places with accredited training, because all three types of providers would have to be more responsive.

Michael Leech,
Principal,
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Bankhead Avenue, Sighthill,
Edinburgh

From Mr James Hanshaw.

Sir, I whole-heartedly support your editorial "The training challenge" (May 9). The problem and the challenge is indeed great.

I arrived in this country five years ago, the product of leading German and US company education programmes. I acquired a medium-sized technology-based company and have found that the training gaps throughout the country are enormous; from sales people with no commercial acumen through to skilled craftsmen with insufficient technical knowledge to purchasing and accounts personnel with no financial integrity.

In our company of 70 people, electrical and mechanical trade apprentices now constitute 10 per cent of our total workforce in addition to which we have several office-based trainees on higher education day release courses.

The common cry in much of industry is: "we cannot afford it". I take the view that we cannot afford not to and if our small company is able to afford the investment in a highly competitive environment so too can others. The unwillingness of so many companies to do so indicates a lack of training in itself.

Indeed, we are constantly faced with poaching problems from large and small companies alike, our final year apprentices being prime targets.

This is but one element of the total problem. Other smaller elements also need to be eradicated by training such as the unwillingness of some skilled persons to transfer their knowledge to apprentices.

It is easy to allow the enormity of the problem to deter one from addressing it at all.

In any event, we should not delude ourselves that countries with better systems do not have problems of their own. As one who has often witnessed apprentices taking time off to lounge around in German factories, I find the willingness to learn by most of our young people very encouraging.

Our task as today's leaders must be to pay the cost of ensuring these young people have access to proper knowledge before yet another generation of opportunity is wasted.

James Hanshaw,
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From Mr Noel Clarke.

Sir, Your timely leader on the training challenge is an apt indictment, worthy of weekly reiteration.

Alas, your appeal to the Government to take the lead may fall on stony ground. Faced with continued de-industrialisation and shortage of skilled manpower, the most notable response to date has been to attract foreign investment and import foreign technical and management skills.

For this we should be thankful but it does not address the question. But what else could be expected from a laissez-faire administration which doubtless takes the view that only the market can determine its requirements for skills.

Yet this is clearly not enough. The apprenticeship system in West Germany and the *grandes ecoles* in France are ample evidence in different ways of the essential place of committed institutionalised vocational training. The sustained long-term growth of those countries relies as much on this resource as on capital.

Managers in Britain meanwhile have to reckon without it and are reduced to deploying capital alone in corporate acquisitions to achieve at best rationalisations and redundancies, at worst ill-thought out speculation. No wonder the more responsible owners of capital often prefer to export it altogether.

The training of youth in the UK has been largely fudged. Without the skills or the discipline which it provides, many youngsters are left to fend for themselves without purpose or commitment and that is a disgrace which manifests itself all too clearly.

If some Thatcherite zeal were applied to training, then we could really "bet" on some genuine growth and our children might have something better to live for.

Noel Clarke,
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Action required to reverse the lot of South Korea's 'moon villagers'

From Mr David Redfearn.

Sir, The points raised in John Ridding's article ("Korea's villagers suffer while real estate prices soar," May 9) deserve universal publicity as a revelation of how governments serve the interests of the rich and powerful, while at the same time creating the impression that they have the general interest at heart.

It is evidently not possible for the Government of South Korea to ignore the fact that the working population puts more into the system than it gets out, while the country's 30 business groups who pull the political strings receive considerably more than they put in.

It is also hardly possible to conceal from a people comparatively recently dispossessed of their share of the earth that land monopoly and speculation are the root causes of their plight.

So something must be done. Forced sale of surplus land is safe enough; for, by the time the staff have been appointed, the administrative machinery devised, disputes settled about the meaning of "surplus", and frantic appeals given due consideration, the apparent victims will have organised the safe disposition of their property among their families and friends.

A tax on the increase of the value of land makes a slight concession to usefulness, but that is all. It is as if having caught the person who has made off with the family silver, you pronounce yourself satisfied with the return of one of the spoons.

The "minimal" tax on idle land is another that is calculated not to hurt. Even if the holder cannot get away with the equivalent of erecting a pigsty on a vacant plot in Piccadilly, the penalty will not be too severe.

There is one measure that the South Korean Government will certainly not consider, namely levying a tax on the value of every square yard of land in the country.

If the tax were high enough, it would take all the profit out of speculation, bring more land on to the market and, by increasing the supply, reduce the price.

The moon villagers might in the end even be able to come down from the hills, and enjoy something approaching their fair share of the gross domestic product.

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FINANCIAL TIMES
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A village debates Romania's fate

By Judy Dempsey and Owen Bennett-Jones in Bucharest

A Liberal Party supporter defaces a National Salvation Front campaign poster depicting provisional President Ion Iliescu after a party rally in central Bucharest

REPEATED allegations of intimidation and violence in Romania's election campaign seemed yesterday to be making little impression on the inhabitants of the small Romanian village of December 30.

With less than a week to go before elections for the first free parliament in more than 40 years, they turned out in their hundreds in warm, muggy weather to hear Mr Petre Roman, the Romanian interim Prime Minister, spell out the message of the ruling Front for National Salvation.

While many of the women came to catch a glimpse of the man considered to be the most handsome of all candidates, the men had come for different reasons.

"He should give us back the village's old name which was changed in 1947 to celebrate the birth of the Romanian republic," said Mr Ion Iordache, a 51-year worker in the local council.

The village used to be called Ferdinand in honour of a former king of Romania.

"That's the name I want back now," said Mr Iordache.

Many of the men work at the local agricultural co-operative – 60 years ago a farm owned by the Romanian king – which under the Ceausescu regime was ordered to grow food specifically for the Communist Party's top echelons.

The villagers saw none of the farm produce.

Today, five months since the revolution which overthrew the regime, the farm is unguarded and the food goes directly to the region.

"The Front gives us back the right to decide about our produce," said Mr Iordache.

Speaking in a half-full football stadium surrounded by poorly designed grey concrete blocks of flats, Mr Roman drew applause from the crowds with a pledge that local government would regain its autonomy if the Front won power. The flats were built on what were once old village settlements torn down in the Ceausescu regime's "systemitisation" programme aimed at modernising village life.

On the village's name, Mr Roman told his audience: "I don't care what they call it. Let the people decide."

Recent opinion polls may not be reliable but they consistently give the Front 60 per cent of the votes.

The opposition parties, including the National Peasants Party and the National Liberal Party, two of the country's traditional parties, are not surprised by the polls.

"The Front try to stop me from campaigning," said Mr Ion Ratiu, the presidential candidate for the Peasants. He returned to Romania last January after spending over 40 years in exile in Britain.

"They (the Front) tried to disrupt my campaign in Oradea (a town on the Hungarian-Romanian border) last Friday," he said, allegations which are repeated by National Peasants Party members but denied by the Front.

Yesterday, thousands of his supporters turned out in Bucharest, waving *Jos Communismus* – down with the Communists – banners. Much the same slogans were heard a day before at the National Liberal Party rally addressed by Mr Radu Campeanu, its leader and presidential candidate.

Uncovering the truth or otherwise of Mr Ratiu's allegations is almost impossible in a country noted for its rumour, lies, deception and random violence.

But there has been a catalogue of violence, including the harassment of Mr Ratiu's wife and an attack on Mr Campeanu during an election rally in the Moldavian town of Braila.

Mr Ion Iliescu, the interim President who is running as the Front's presidential candidate, denies that the Front was the source of these spasmodic outbursts of violence.

He quoted Mr Mihai Chitac, the Minister of the Interior, who said: "If I compare the situation in other countries, it is a rather gentle atmosphere here."

Scandinavia builds a bridge to prosperity

By Robert Taylor

SWEDEN's Social Democrat members of parliament are expected tomorrow to back a proposal for a 17.6km long road and rail bridge across the Oresund, the busy waters that lie between Malmo in Sweden and Kastrup in Denmark.

The bridge is a crucial connection in a transport system which by the end of the decade will link Sweden, Norway and Denmark to the rest of western Europe.

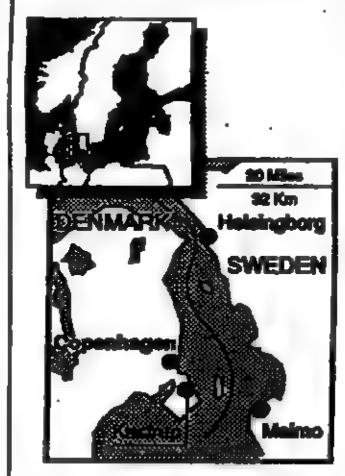
The expected decision to go ahead with the link follows the Social Democrat Party executive's recent endorsement of the project.

The argument has occupied Sweden and Denmark since 1872, when it was proposed to construct a rail tunnel between the Swedish port of Helsingborg and Elsinore in Denmark. "You could build a bridge just with the amount of paper the project has generated," one seasoned observer commented.

Now, more than 100 years after a road and rail bridge was first suggested, the saga appears to be approaching its last chapter.

The bridge will form part of a much wider programme of construction already begun with the building of an 18km long road-rail bridge and tunnel across the Great Belt between the Danish island of Zealand and the Jutland peninsula, expected to be finished by 1997. It is also hoped to build a bridge or tunnel across the 24km separating the southern Danish island of Lolland from Schleswig Holstein in Germany.

No other current topic seems to arouse as much passion in the area as the link over the Oresund. It has come to symbolise the psychological gap that exists between the Nordic region and continental Europe. The building of the bridge would demonstrate more eloquently than anything else that all the countries of Scandinavia – not just Denmark – recognise their future lies with Europe.



On both sides of the Oresund this is powerful backing for the bridge idea from employers and unions who believe its construction will transform the region's economy.

Up until recently the chief procrastinators over the Oresund tended to come from Denmark, but now the Danes are much more enthusiastic about the idea, particularly when it is linked to the other construction projects designed to provide their country with a road and rail network tieing it up firmly with Germany.

In fact, over the past few years it has been Sweden who has held up progress over the Oresund project.

At their 1987 party conference the ruling Social Democrats rejected a government backed bridge, under pressure from the burgeoning Green movement.

The cost of a projected rail-road bridge over the Oresund has been estimated at SKr11bn at 1988 prices, according to a joint Swedish-Danish study. But that figure seems likely to rise. Mr Cavalli-Bjorkman, former chief executive of Scandinaviska Enskilda Banken, an active bridge lobbyist through the organisation Scan-Link, said last week the cost could now be as high as SKr20bn. Five years ago the connection was costed at SKr3.3bn when envisaged by the European Business Roundtable organisation as part of its plan for a Scandinavian Link running down the Swedish west coast from the Norwegian border to Malmo.

There have been many false dawns over the past 20 years on the Oresund project but the pressure looks irresistible now for the critics of the link face a formidable alliance of capital and labour in Sweden and Denmark, who recognise that the future economic prosperity of their countries lies in binding together the communication network between the Nordic region and the European continent.

EC behind schedule on standards for 1992

By Lucy Kellaway in Brussels

THE EUROPEAN Community is falling badly behind in its drive to create the European standards essential to its planned single market. The Brussels Commission fears only a small proportion of the roughly 3,000 standards needed will be ready by the end of 1992.

In a green paper to be published this summer, the commission will recommend important changes in the way European standards are set, proposals which are likely to be unpopular with member states as well as with the powerful national standards bodies.

"Our paper asks whether the system is adequate to meet the great demands on it, and our conclusion is that it is not," said one official.

Standards form a central part of the Commission's so-called new approach to removing technical barriers, which has greatly speeded the passage of single market measures. Directives have been simplified by confining their scope to compulsory minimum safety levels.

Most of the technical work has been passed to private sector standard bodies, which are charged with drawing up recognised standards which meet the requirements laid out in the directives.

The commission is urging EC governments and industry to give much higher priority to European standards.

It wants to make standard setting a more European process, replacing the present system in which the work is done by committees of national standards bodies. Some member states have opposed any major change at least until 1992, as they fear it would slow the process down still further.

One option being considered in Brussels would allow industries to by-pass the national bodies and produce their own standards, which would then be turned into European standards. These could be sold directly to industrial customers, rather than being translated into national standards.

Hammering out the standards, Page 4

US seeks $50bn deficit cut in budget talks

By Peter Riddell, US Editor, in Washington

THE Bush Administration has set an initial target of a roughly $50bn (£29.9bn) reduction in the federal deficit in budget negotiations with congressional leaders, due to start tomorrow in a mood of mutual suspicion.

Fearing a political trap, Democratic leaders are insisting that President George Bush declares his hand first by putting forward potentially unpopular proposals to cut the deficit. *Meanwhile, conservative* Republicans are worried that Mr Bush may be about to abandon his "no new taxes" campaign pledge.

The Gramm-Rudman deficit reduction law mandates a cut in the deficit to $64bn in fiscal 1991, starting this October. Mr Richard Darman, the budget director, said yesterday that the late January estimate of $36.5bn of spending cuts and higher revenue needed in order to meet the target had now risen to about $50bn and could pass $100bn if the full impact of the savings and loan rescue was taken into account.

However, he suggested that a bipartisan agreement should aim at reducing the deficit by *$45bn-$55bn in the first*, 1991, year and should tighten the disciplines of the budgetary process. He said it would not be sensible to contract the deficit by as much as $100bn in the first year.

There looks likely to be an initial period of manoeuvring in the talks as both side seek to shift responsibility.

Since the agreement to hold budget talks with no preconditions was announced a week ago, Democratic suspicions have been increased by the comment of Mr John Sununu, the White House chief of staff, that, while it was the Democrats' prerogative to put a tax increase on the table, "it's our prerogative to say no." Mr Bush *was forced to reiterate* that there were no conditions.

Mr Sununu was seeking to reassure conservative Republicans who fear a tax increase would damage their party in this November's elections.

Democratic leaders, who are divided about how to approach the meeting, are being advised to be extremely cautious. Senator Jim Sasser, the Democratic chairman of the Senate Budget Committee, said his party would not be putting tax increases on the table, but would be looking to Mr Bush to propose revenue increases that were fair and equitable and to sell his plan to the American people.

Both sides agree that defence spending will be less than proposed in the Bush budget in late January. Service chiefs have prepared plans for fulfilling a 2 per cent annual cut in the Pentagon budget in real terms, now likely to be larger.

Brady interview, Page 44

UK troop cuts to form part of Nato talks

Continued from Page 1

on US and Soviet short-range nuclear weapons deployed in Europe, which have also been brought forward.

Prospects for further negotiations, however, depend on a revival of progress in the CFE talks, which resume in Vienna tomorrow. Western officials are worried that time may be running out for a treaty to be concluded, as hoped for, before the end of the year.

The case for pressing ahead quickly with further negotiations is based on expectations that it will become increasingly difficult to secure agreements with a disintegrating Warsaw Pact, and on concern about President Mikhail Gorbachev's domestic problems.

Nato is anxious to secure a treaty curbing military equipment before extending the scope of the talks on troop levels beyond current proposals for US and Soviet foreign-stationed forces. These proposals involve reducing both countries' ground and air forces in the central regionto 195,000, with the US maintaining a further 30,000 in other parts of Nato.

Early follow-on talks would enable the US Administration to respond to growing congressional pressure to cut its forces to a level below this.

Some Western military analysts believe that Nato plans for force levels could correspond remarkably closely with a Soviet proposal made earlier this year for a ceiling on each alliance's forces in the central region of between 700,000 and 750,000.

Under the Soviet definition this region comprises both Germanys, the Benelux countries, Denmark, Poland, Czechoslovakia and Hungary.

The analysts say Nato would come within a 700,000-750,000 figure for ground and air forces if the US were to halve its forces in the region to 100,000-125,000, and the other countries with forces stationed in West Germany reduced their's by about 40 per cent.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	21	70	Dallas †		-	-	Madeira	C	20	68	Prague	F	16	61
Algiers	S	25	77	Dublin	S	15	59	Madrid	C	19	66	Reykjavik	R	8	46
Amsterdam	C	14	57	Dubrovnik	C	17	63	Majorca	F	21	70	Rhodes	S	22	72
Athens	C	20	68	Edinburgh	C	13	55	Malaga	F	24	75	Rio de Janeiro		-	-
Bahrain	S	30	86	Faro	S	21	70	Malta	S	21	70	Rome	S	19	66
Barcelona	S	19	66	Florence	S	24	75	Manchester	C	14	57	Salzburg	S	22	72
Belfast	C	13	55	Frankfurt	F	17	63	Melbourne	C	13	55	S'Francisco †	S	9	48
Belgrade	C	20	68	Geneva	F	23	73	Mexico City		-	-	Santiago		-	-
Berlin	S	19	66	Gibraltar	S	22	72	Miami †	S	26	79	Seoul	R	18	64
Biarritz	C	16	61	Glasgow	F	13	55	Milan	F	21	70	Singapore	F	31	88
Birmingham	[illegible]	12	54	Guernsey	S	15	59	Montreal †	C	9	48	Stockholm	S	16	61
Blackpool	S	15	59	Helsinki	S	15	59	Moscow	S	10	50	Strasbourg	F	18	64
Bombay	F	32	90	Hong Kong		-	-	Munich	T	16	61	Sydney	F	18	64
Bordeaux	[illegible]	14	57	Innsbruck	F	23	73	Nairobi	F	23	73	Tangier	F	21	70
Boulogne	F	15	59	Inverness	F	13	55	Naples	S	22	72	Tel Aviv	S	22	72
Bristol	F	12	54	Isle of Man	S	12	54	Nassau		-	-	Tenerife	F	22	72
Brussels	C	15	59	Istanbul	F	22	72	Newcastle	C	11	52	Tokyo	C	23	73
Buenos Aires		-	-	Jersey	S	17	63	New Delhi	S	32	90	Toronto †	R	8	46
Budapest	R	19	66	Johannesburg	F	16	61	New York †	C	15	59	Tunis	C	19	66
Cairo	S	31	88	Las Palmas	S	21	70	Nice	S	19	66	Valencia	F	25	77
Cape Town	S	19	66	Leeds	C	12	54	Nicosia	S	22	72	Venice	S	21	70
Cardiff	S	15	59	Lisbon	F	20	68	Oporto	F	18	64	Vienna	S	19	66
Chicago †	S	8	46	Locarno	F	21	70	Oslo	S	18	64	Warsaw	F	20	68
Cologne	C	13	55	London	C	16	61	Paris	S	18	64	Washington †	C	18	64
Copenhagen	F	15	59	Los Angeles †	S	13	55	Peking		-	-	Wellington	C	16	61
Corfu	F	22	72	Luxembourg	F	[illegible]	[illegible]	Perth	F	[illegible]	[illegible]	Zurich	[illegible]	[illegible]	[illegible]

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder. † Noon GMT temperatures

Election setback for Kohl

continued from Page 1

crease their score to 44.0 from 42.1 in the last state poll in 1986, according to computer projections last night. The Christian Democrats slipped to 41.6 per cent from 44.3.

A Social Democrat coalition with the Greens in Lower Saxony appears the most likely outcome. Mr Schoder said he would be holding coalition talks with the Free Democrats and the Greens, both represented in the new state parliament.

In North Rhine-Westphalia, where the Social Democrats have held power for 24 years, Mr Johannes Rau, the Prime Minister, maintained an absolute majority with 50.6 per cent of the votes. This represented a slight fall compared with its 52.1 per cent in the last state poll in 1985.

Mr Rau said last night the Social Democrats would be making their influence felt in negotiations over a united Germany. They now have a majority of 27 to 18 in the Bundesrat (including the four votes for West Berlin which does not have full voting powers.)

The first test will come when Mr Kohl meets Land (state) Prime Ministers on Wednesday for talks about the sharing out of the funding burdens.

THE LEX COLUMN

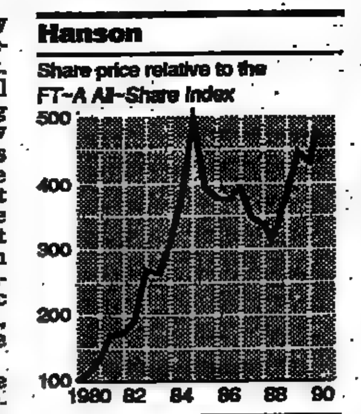
Wall Street's siren call

The mood in the global equity markets has improved noticeably over the last fortnight. Last week's late surge on Wall Street, in the heaviest trading volume this year, left the Dow Jones Industrial Average less than 10 points off its all-time high. The Tokyo stock market has risen by 12¼ per cent since the start of last month when it seemed to be in free-fall. Even the equity markets in countries with serious economic problems – such as Britain, Canada and Australia – have come back to life.

Not surprisingly, the change in sentiment has been triggered by a modest recovery in the bond markets. The Japanese yen has stopped falling for the time being, and industrial unrest in West Germany no longer seems such an inflationary threat. As a result, there is less likelihood that the world's two biggest creditor nations will have to raise their interest rates imminently. The US Treasury's quarterly refunding was better than anyone dared expect, and long bond yields are now closer to 8½ per cent than the 9 per cent plus of a fortnight ago. In the UK, the turnaround has been even more dramatic, with long gilt yields dropping by 75 basis points over the same period.

While the recovery in the bond markets is welcome, a couple of points need to be made. In the first quarter of this year, virtually all the leading equity markets, with the exception of Japan, largely ignored the terrible performance of their domestic bond markets, with the result that equities have been getting relatively more expensive. Meanwhile, the Standard & Poor's industrials index is selling on 15.2 times earnings compared with 12.8 times a year ago, the Dow is 15 per cent higher, and even after last week's surprisingly good US producer price figures, the inflation outlook has worsened over the last year. Throw in concerns about the health of the dollar and the US economy, and it is difficult to see Wall Street dragging the rest of the world's equity markets much higher.

Hanson



It is not the best of times for Hanson in terms of public relations. Last week's 1,200 job cuts at Imperial Tobacco could be construed as a sign of pressure: Smith Corona, Hanson's disastrous foray into demerger, stands at a third of its flotation price; and now it finds itself in a bidding battle for the minority of Peabody, the US coal company which it controls. A large part of the *raison d'être* for companies like Hanson is their ability to weather any kind of trading conditions, as was triumphantly demonstrated in 1980-81. As the market prepares for tomorrow's interim figures, does the formula still apply?

For Hanson supporters, the question is the wrong way round. The manning cuts at Imperial are a further stage in a managed and highly profitable decline: from £125m or so four years ago, tobacco profits could be £200m this year. Smith Corona could be genuinely damaging in terms of US investor relations, but at least Hanson now owns only 48 per cent of it. And although profits from bricks will be down this year by anything between a quarter and a third, bricks and Smith Corona together contribute little more than 5 per cent of group trading profit.

The question, therefore, is not whether Hanson is still defensive – earnings growth this year should be 12 per cent or so – but how long the market will continue to value its defensive qualities.

Indexed funds

As Globe will no doubt remind the world in its forthcoming defence document, indexing is not the automatic route to heaven for fund managers. Active managers may find it hard to outperform indices in bull markets but they have consistently argued that when markets turn bearish their true skills come into play. In that case, this year should be a good test.

It is too early for detailed analysis of pension fund performance this year. But it is possible to compare the performance of investment trusts and those unit trusts which have been indexed. Such a comparison could be distorted by the effect of gearing which should handicap investment trusts in bear markets. However, passive managers could reasonably argue that active managers have a choice between gearing and cash and in any case their supposed superior stock-picking should more than compensate.

So far this year, shares in the group of investment trusts classed as UK capital growth by S G Warburg have fallen by 14 per cent, compared with declines of around 11 per cent in the FT All-Share and FT-SE 100. There are no indexed investment trusts but the four indexed unit trusts have reported, on an offer-to-bid basis, an average decline of 16.4 per cent. A fair comparison would allow for the spread, dealing costs and stamp duty on investment trusts which would probably push their performance below that of the indexed funds.

In Japan, at least, the figures look rather better for the activists. The four general Japanese investment trusts have recorded an 18.9 per cent decline so far, slightly better than either the Nikkei which has fallen by 20 per cent. In contrast, the one investment and two unit trust indexed funds have fallen by 34 per cent.

Concentration on the performance of investment trust shares might, of course, obscure a better asset performance. But the discount to assets has scarcely moved this year. So the figures in this bear market are scarcely a vindication of the active manager.

Swiss Banks

CS Holdings has clinched its bid for Bank Leu, but it is too early to see this as the start of a wave of long over-due consolidation in the industry. In reality, this brief flare-up of takeover activity in notoriously over-banked Switzerland has only served to illustrate the slow pace of industry rationalisation there.

Of course, Swiss Volksbank could be the next medium-sized institution to be bid for by another of the Big Three Swiss banks. It is undeniable, too, that with Swiss banking sector share prices down on average about 13 per cent since January 1, after a ghastly performance last year, some of the share valuations look undemanding historically. But the extent to which Switzerland's banking infrastructure exceeds its needs is mind-boggling (there are 300 banks in Zurich alone), and could take many years to slim down.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday May 14 1990

INSIDE

Trading in dollars and in sense

The 10 largest bank creditors of British & Commonwealth meet at the London headquarters of Barclays Bank today to discuss their reponse to SG Warburg's restructuring plan for the troubled financial services group. But despite the group's difficulties, there are parts of B&C worth salvaging and selling off, including its highly successful money-broking operation, Exco. David Lascelles examines what would be the latest upheaval in the billion-dollar business of money-broking. Page 20

Inside track on insider dealing

France's stock market supervisors have produced a batch of new regulatory texts to form the basis of French practice on financial information, insider dealing and market manipulation. The texts, yet to be approved by Mr Pierre Bérégovoy, the finance minister (left), would clearly define inside information, covering both the directors and employees of a company and any of their advisers. George Graham reports. Page 23

Planning for a comeback

Corporate strategic planning went out of fashion in the early 1980s. Evidence showed that companies without central planners provided higher returns to shareholders than those which still employed them. Yet the anti-planning fashion may have gone too far. Many companies are discovering this as they search for guidance through the uncharted waters of fast-moving international competition, says Christopher Lorenz. Back Page

Gilt edge to rising inflation

How does one explain a market that greets an eight-year inflation high with joy and which is simultaneously looking forward to a rise in unemployment? Andrew Marshall looks at the confusion behind forecasts for UK inflation and the surprising rise in gilts markets, which were relieved to see things were not as bad as had been feared. Page 22

Telecom market gets crossed line

Potential is high, but shares are low at McCaw, reports **Roderick Oram**

"IT LOOKS like a pathetic joke – a sick, pathetic joke," says Mr Frederick Moran, a Connecticut asset manager, of McCaw Cellular Communication's stock price which has slumped 44 per cent since last June.

He is not unhappy – he bought early and low to build a stake of some 5 per cent in the largest provider of cellular telephone services in the US. But he is angry. "Wall Street professionals must be asleep" not to realise the stock is worth by his calculations at least two-and-a-half times as much.

British Telecommunications must wish it was so lucky. It forked over $1.48bn to acquire a 20 per cent stake in McCaw, buying all but $110m worth of stock just days before the price peaked last June. It had agreed on the price in January when the shares were trading in the high $20s, near where they are today. The value of the holding has since slumped by 38 per cent, presenting BT with a paper loss of $560m.

Even the most bullish of cellular investors like Mr Moran readily admit it will be three to five years before McCaw turns a profit and begins to justify their money in it.

The wait could be nerve wracking. The prospects for McCaw and all cellular companies up to the mid-1990s are clouded by a whole host of issues. New competitors are eagerly pushing cheaper forms of mobile telephony, state and federal regulators are growing impatient with the lack of competition between the existing two licensees in each market and new customers are not buying as much air time as the old ones.

Suddenly last summer, investors – or speculators, as Mr Moran derisively calls them – panicked about these factors, stopping the feverish rise of cellular stock dead in its tracks. Prices plummeted with McCaw's drop typical of the industry's as a whole.

Analysts believe the stocks are *close to bottoming out now that* speculative excesses have been wrung out of the prices and a more realistic view of cellular's fortunes is forming. Still, "the uncertainty is not going to go away," says Mr Lap Lee of Gordon Capital.

The biggest concern hangs over McCaw by virtue of it taking the biggest gamble.

Led by Mr Craig McCaw, its 40-year-old founder, it has borrowed $3.6bn to buy up the biggest share of cellular territory. It capped its acquisition streak by paying $3.4bn earlier this year to boost its stake in Lin Broadcasting, holder of valuable licences in New York and other big cities, from 9.8 per cent to 52 per cent.

Now McCaw has the territory it says it needs to build a "seamless" national cellular network, it must sign up subscribers fast to make sense of the money it has invested.

So far it has 853,000 of them, up 64 per cent in a year thanks in part to the Lin acquisition. But it is still serving only 1.45 per cent of the 59m people in its territories.

With a large chunk of its capital costs behind it, each new subscriber brings a healthy increase in operating cash flow. In the first quarter of this year, McCaw's operating cash flow of $43.8m equalled about 31 per cent of service revenues, up from 28 per cent last year. Cellular service revenues rose to $141.7m in the quarter from $84.6m a year earlier.

"There's *a lot* more growth in cash flow to come," says Mr Ken Leon, an analyst with Bear Stearns.

One of McCaw's big challenges is to bring Lin's properties up to the same standard as its own. Lin had a reputation for skimping on investment in its choice territories such as New York and Los Angeles. The strategy allowed it to turn a profit well ahead of other cellular companies but it turned off customers.

McCaw will not talk about what it is up to at Lin. Others in the industry say it is spending a lot of time and money to improve the quality of Lin's cellular coverage and has sharply increased marketing expenditures. It has also boosted the morale of Lin employees. But a marked improvement in Lin's service is at least six months away, some people estimate.

McCaw, along with the whole industry, must also stem the slow decline in usage. The average bill per Lin customer, for example, was $107 per month in the first quarter, down 3.3 per cent from a year earlier. Some other cellular companies are reporting declines of between 5 and 10 per cent over the past year.

As for competition from cheaper forms of mobile telephony, such as personal communications networks (PCN), the existing cellular companies believe they have at least five years before the threat becomes real. But they say by then their own service will be cheaper and more versatile, offering, for example, their own form of PCN. By and large, Wall Street shares this optimistic view.

Even if McCaw sustains high rates of growth over these uncertain next few years, as analysts expect it will, its finances will be stretched. In the prospectus for its Lin offer, McCaw said it faced several more years of steep losses before all costs, most particularly interest, would be covered.

McCaw is unlikely to run out of money in a hurry. It has a $3bn line of credit to tap and it could also shed more assets as it did to help finance the Lin purchase. In that case, McCaw sold $1.2bn of cellular properties in the south-eastern US to Contel, a smaller independent operator.

One likely candidate, some analysts feel, is Lin's 49.9 per cent stake in the Philadelphia licence, worth perhaps about $800m. But selling that would take a big bite out of McCaw/Lin's east coast coverage and jeopardise its national ambitions.

"McCaw's finances are not as sound as one might wish but I don't think that's relevant," says Mr Herschel Shosteck, a cellular industry consultant. "McCaw has a strong bargaining position with its creditors" given the large sums it owes and its leading position in the cellular market.

"I suspect the bankers are going to have to gulp and come to terms with McCaw by either conceding more favourable terms or taking some equity in it," he adds.

Though McCaw is still years away from realising the high potential many people see for it, its senior management have rewarded themselves handsomely for their work to date. Mr McCaw was the highest paid US chief executive last year, earning $53.9m, mainly from cashing in stock options. Two colleagues followed suit making the bill for the three men $92.7m. The company lost $288.5m on revenues of $504m last year.

Similarly, senior Lin executives had a very sweet deal when McCaw took over. Many of them are quitting the company, having cashed in stock options approaching $300m, $200m of which went to Mr Donald Pels, Lin's departing chairman.

For those investors such as BT and Mr Moran who have bet heavily on McCaw's future, the only immediate reward is more years of nail biting.

Playing chicken with the US budget deficit

By Anthony Harris in Washington

This column is about chickens. Tangentially, it is about the game of chicken which will start in Washington tomorrow at the Bush budget summit, as each side tries to manoeuvre the other into being the first to utter such fatal words as "taxes" and "benefit cuts"; but mainly it is about Chicken Little.

Chicken Little fills the place in American myth taken in Europe by the little boy who cried wolf. He (or is it she?) rushes about squawking that the sky is falling, and has the same credibility problem as the little boy.

It is some years now since Stephen Marris published the first falling-sky warning about the deficit, which was supposed to lead straight to an "adjustment crisis" and a dollar collapse. His cry was later taken up by a whole pack, led by President Ronald Reagan's chief economic adviser, Mr Martin Feldstein, and Mr Peter Peterson, a well-known businessman/philosopher. But the sky is still in place, and now every new assault on the deficit is haunted by what is known simply as the Chicken Little problem.

Do they really mean it, and does it matter whether they do or not? The question seems urgent this week, because the summit launch seems to have been devised with a self-destruct mechanism. The nature of these exercises is that some decisions may be possible *only* by secret consensus. Everyone meets to hammer out some sort of compromise – in this case, of tax increases and spending cuts.

The effort does not always succeed; and when partisan positions within the negotiations begin to leak out, it is a sure sign that the exercise is foundering.

This is how we learned last year that after some months of effort, the Strauss deficit commission had failed. What is new this time is that the name-calling has begun even before the first meeting. The Republican right wing was outraged by the fact of a summit, correctly concluding that this can only mean the President is open to tax proposals. Then the White House chief of staff, Mr John Sununu, gave a "secret" briefing to the effect that any tax proposals would have to come from the Democrats, and would be opposed. That was the "leak."

It is still not quite clear whether Mr Sununu was:

(a) trying to protect the President from his own right wing (a regular role);

(b) trying to torpedo the summit on behalf of the right wing;

(c) assuming that nobody would take much notice of a statement of the obvious. It does not greatly matter, since the result has been to make the Democrats suspect a political trap.

All this means that the odds against a serious attempt to cut the deficit have lengthened sharply, while the odds on an attempt to move the goalposts through another "fix" of the Gramm-Rudman deficit reduction targets have shortened.

And still the sky has not fallen. On the contrary, both the bond and equity markets ignored the summit, and took off on Friday on the strength of some trivial news about the economy. The so-called fall in retail sales was a non-event: all that the announcement said was that the drop originally reported in March had actually occurred *in* April. This leaves the level of sales exactly where everyone had supposed.

The softness of wholesale prices is real enough, but should have surprised only a market obsessed with its own neuroses; those neuroses are clearly not about the deficit. This fact seems to support an old-fashioned economic idea called the Equivalence Theorem. This argues that government spending is a charge on private saving, and that it makes very little difference whether this charge is levied through borrowing or through taxation. This was put more succinctly last week by Mr John Reed of Citicorp, who grumbled: "We are already paying higher taxes: they are called higher interest rates."

Some theorists argue that this is wrong, because interest rates are set in a world market, in which even the US deficit is a triviality; but at the very least a deficit cut would soothe the current Wall Street worry about a *possible Japanese retreat from* the US bond market. One of the arguments being put within the Administration for a genuine, tax-raising summit is that a tighter US budget now would, like the tight British budget of 1981, protect growth by allowing the authorities to cut interest rates.

Meanwhile, the authorities – the Fed and the office of the Comptroller of the Currency – are having a hard time persuading the bankers that they are not already imposing a squeeze through tougher rules rather than higher rates.

Since their message is that credit is getting tighter because of a weak economy rather than because of tighter rules, it is not as soothing as it might be; but it does raise its own version of the Chicken Little problem.

Are the bankers, property developers and journalists who are warning about the falling-sky potential of *tight credit overdoing the gloom?* That is the firm conclusion of the learned bean-counters who have analysed the Fed's credit figures and concluded that a squeeze limited to property developers and the small company sector will cause only localised pain.

It may be too early to draw this comforting conclusion. Construction takes time to slow down; the wealth and confidence effects of weak property prices also spread slowly. And a commentator from Europe cannot help remembering that although the sky is still up there, the little boy who cried wolf got eaten.

Economics Notebook

West wakes up to eastern nightmare

SLOWLY but surely, the sheer enormity of the economic problems facing eastern Europe is becoming clear for western policy makers.

Last week's International Monetary Fund and World Bank meetings in Washington were marked by the sober realisation that eastern Europe's transition to market-based economies will be very difficult indeed. Summing up the mood, Mr Jacob Frenkel, the IMF's chief economist, said: "We need to emphasise that we will be there for a long journey and that the road will be bumpy."

There are pockets of progress. Since Poland introduced its radical market-oriented economic reform programme at the beginning of this year, exports have risen and a small budget surplus has emerged. But, according to Mr Willi Wapenhans, World Bank vice president responsible for Europe, the Middle East and North Africa, such achievements pale into insignificance against the problems facing the east European nations:

- While their individual circumstances vary greatly, all east European countries face the challenge of having to introduce from scratch institutions and attitudes which are taken for granted in the West.
- All need infusions of modern technology to improve their manufacturing industry and agriculture.
- They face a major catching-up exercise in the services sector, where the gap vis-a-vis the West in terms of the ability to deliver services is much greater than the gap in industry's productive potential.
- Appalling environment problems, especially in Poland, Czechoslovakia and East Germany, add to the region's difficulties.

"We are only beginning to scratch the surface of the environmental problems," Mr Wapenhans told a seminar in Washington last week. Because of pollution, water cannot be used for human consumption along 95 per cent of Poland's longest river, the Vistula. It cannot even be used for industrial purposes along 75 per cent of its length, because it is too corrosive.

In Poland's industrial south west, which was one of the nation's most fertile areas, one-third of the land cannot be used for root crops because of heavy metal contamination. Per head, sulphur dioxide emissions are the highest in the world in East Germany and Czechoslovakia, and four times those of West Germany.

The poor environment is one reason why life expectancy has been falling in countries such as Poland. The region's human capital needs revitalising in other ways. The shift to a market economy will require acceptance of the concepts of risk and reward. East European nations must motivate people who over the past four decades have adopted largely passive attitudes in the face of the planned economy.

This, however, is easier said than done. A host of practical difficulties stand in the way of translating desirable reforms – such as the introduction of bankruptcy laws, the freeing up of prices or the privatisation of state enterprises – into effective change. Mr Wapenhans pointed out that promulgating a bankruptcy law is only a first step towards enhancing the mobility of both labour and capital.

The absence of national social security systems is a significant handicap to market signals determining whether enterprises enter into or exit from east European markets. Because pensions are enterprise based, labour mobility is made very difficult. An additional problem is company housing. In Poland, for example, half the population lives in company apartments while a western-style housing market is non-existent.

Such factors are likely to tie individuals to unproductive employers even though other signals such as higher wages or better opportunities elsewhere should exist in the new Polish economic system.

Price reform, although a vital part of the creation of market-based economies, also has to overcome serious obstacles. Reflecting the backwardness of the east European service sectors, there simply are not the competitive marketing channels that are essential to successful price deregulation. Similarly, privatisation of state enterprises must contend with the absence of accounts, accountants and auditors.

At present, it is extremely difficult to judge whether companies in eastern Europe are potentially healthy or not. Both the World Bank and IMF have laid great stress on the creation of a viable system of financial intermediation as vital for eastern Europe's future. It is an area where western technical assistance from central and commercial banks is already playing an important role. But, as Barclays Bank states in its latest quarterly economic review: "The enormity of the task cannot be overstated."

Weak management skills, poor telecommunications, minimal accounting standards and the region's uncompetitive industrial base are all big problems. *In addition, Barclays* says financial reform will require "the simultaneous putting in place of the financial infrastructure of money markets and clearing systems which has, in the West, developed gradually over several generations."

Peter Norman

THIS WEEK

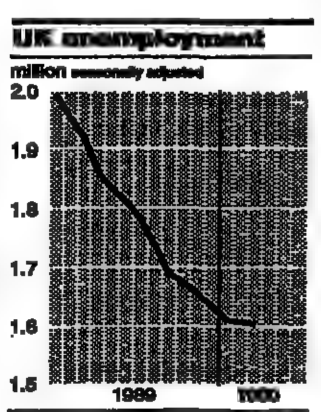
TODAY'S figures on retail sales and producer prices in the UK could provide fresh evidence of inflationary pressure.

Retail sales figures are particularly prone to seasonal variation, so monthly data should not be taken too seriously. But consensus predictions of 0.4 per cent rise in April, following March's 1.8 per cent cut, cannot give any cheer to the market. They translate into a year-on-year inflation rate of 1.8 per cent.

An increase in retail sales would be in line with today's CBI/FT Distributive Trades Survey. Producer price figures are also expected to show renewed inflationary pressure, with output prices expected to indicate a 5.9 per cent increase, year-on-year.

However, the City of London may be able to take heart from the unemployment figures which, according to consensus estimates produced by MMS International, the financial markets research group, are predicted to remain flat after a persistent decline.

UK unemployment



This would indicate a slowing in growth and might improve the chances of a cut in wage inflation.

In the US, the merchandise trade figures, due on Thursday, are expected to show a deepening in the deficit from $6.5bn to $8bn, almost entirely due to increased imports. This would suggest a continued trend towards steady, although slow, improvement.

Otherwise, continued negotiations over the budget, and the possibility of either tax rises or *of alterations to the Gramm-*Rudman budget reduction legislation should continue to dominate debate.

The likelihood of an interest rate rise in the short term would appear to have receded after the good figures on Friday for retail sales and producer prices. This is unlikely to be altered by the consumer price index, due on Wednesday, expected to show an increase of 0.2 per cent.

France is rapidly becoming an oasis of calm in the European economy. On Wednesday, the market expects French consumer price inflation to drop to *3.2 per cent from 3.4 per cent* last month. EMS membership and an independent monetary policy have allowed it to escape the squalls hitting West Germany and the UK.

Other significant economic indicators to be announced during the week (with MMS consensus estimates in brackets) include:

Today: UK, April producer input prices (up 1.3 per cent). OECD Economic Policy Committee meeting, Paris. G10 central bank governors meet, Basle. West Germany, wholesale price index for April (1.2 per cent, year-on-year).

Tomorrow: US, industrial production figures. UK, acquisitions and mergers data. EC central bankers meet in Basle.

Wednesday: US, April consumer price index (0.3 per cent) and housing starts (1.32m).

Thursday: Japan, trade balance for April. US, trade balance for April. Canada, merchandise trade balance for March. West Germany, Bundesbank Central Council meets.

Friday: Japan, wholesale price index for April (2.6 per cent). France, industrial production.

UK COMPANY NEWS

Wall St sceptical about AMAX's bid for Peabody

By Roderick Oram in New York

WALL STREET is sceptical that AMAX, the US natural resources group, will pursue vigorously its efforts to beat Hanson, the UK conglomerate, for control of Peabody Holding Company.

Hanson, which quickly topped AMAX's surprise \$1.25bn bid on Friday, is in a far stronger position than AMAX. It already owns 45.03 per cent of Peabody, the largest coal producer in the US, and it has a 49 per cent interest in Newmont Mining, the Denver-based group which owns the balance.

Moreover, AMAX has a reputation on Wall Street for making its best and final bid early on and then quitting if the offer is rejected or topped.

On Friday AMAX offered \$531.5m for the 45.03 per cent Peabody stake Hanson bought for \$504m from various investors in April. It also offered Newmont \$718.5m for its majority interest in Peabody. Hanson immediately raised its offer for the controlling block to \$725.6m from the \$715m it proposed in March.

AMAX said it wanted to buy Peabody to broaden its own product line and to expand its output of low sulphur coal.

Coal is a new business for Hanson which spoke glowingly of coal's future when it bought into Peabody.

Nonetheless, analysts thought Hanson's motivation had more to do with extracting value from Newmont than coal from the ground. It became a 49 per cent owner of Newmont when it took over Consolidated Gold Fields last year.

Kingfisher chief warns of tougher trading

By Maggie Urry

MR Geoffrey Mulcahy, chairman and chief executive of Kingfisher, the Woolworth, B&Q, Superdrug and Comet retail group, warned of tough trading conditions, in the group's annual report.

Although Kingfisher increased pre-tax profits in its last financial year, from £186.9m to £209.8m excluding exceptional items, Mr Mulcahy has taken a pay cut from £701,000 to £657,000.

Mr Mulcahy, who took over the chair at the year end, said that "last year's more difficult trading climate was more than a temporary cyclical downturn.

I believe it forshadows even tougher conditions to come and that we are seeing the onset of fundamental changes in the requirements and spending patterns of our customers."

Further expansion for Albert Fisher

By John Thornhill

Albert Fisher, the foods group, has made two more acquisitions in continental Europe for £5.2m as part of its policy of developing its food processing and distribution operations.

The two companies, both processors and storers of frozen fruit and vegetables based in Holland and Belgium, are Beheermaatschappij van Soest and van Soest. They had net assets of £4.6m at the year-end.

The consideration will be met by the payment of £3.41m in cash and the issue of 717,379 new Albert Fisher shares. A deferred consideration may also become payable depending on the companies' profits performance.

Radamec £3.4m into the red

The hoped for second half improvement did not materialise for Radamec, control systems maker, and the group finished 1989 with a pre-tax loss of £3.39m, compared with a profit of £430,000.

However, for the first quarter of the current year there was a small profit.

Loss per share worked through at 17.4p and there is no dividend. Previously earnings were 1.3p and the total payment 1p.

From turnover well down to £9.69m (£13.09m) there was an operating loss of £1.84m (profit £657,000).

That was exacerbated by an exceptional charge of £840,000 and finance charges of £711,000 (£457,000).

Adjusting in uncertain times

David Lascelles on the volatility of money broking

THE CRISIS at British & Commonwealth has raised the possibility that the company will have to sell off Exco, its highly successful money broking subsidiary, to raise cash.

If so, the sale would mark another major structural shift in the small but intense world of money brokers where several companies have changed hands in the past few years.

Money brokers act as intermediaries between banks and dealers in the huge markets for deposits, foreign exchange, securities and derivative instruments, like swaps and options. The core of their operations are hectic dealing rooms packed with high technology screens, where literally tens of billions of dollars change hands every day.

According to a report in the Bank of England Quarterly Bulletin last week, there are 28 money brokers in London. But many of these are part of larger groups.

Effectively there are about a dozen firms, of which four control 75 per cent of the market, and are also the dominant players in the international markets.

Apart from Exco, the leaders include MAI, the financial services and advertising group, Marshalls, Tullett & Tokyo, International City Holdings and RP Martin.

Marshalls used to be part of B&C. But after an abortive attempt by B&C three years ago to sell it to Quadrex, the privately held US securities firm which also owns RP Martin, Marshalls engineered a buy-out and is now independent. However the debacle set off a fierce legal battle between B&C and Quadrex which has only just got to the courts.

There was also a series of upheavals at ICH which ended up with the company being partially bought by York Trust, the USM-quoted financial services group. But the deal was soured by fresh losses at ICH caused by the recent controversy in the local authority swaps market where it was a leading broker.

There is now much uncertainty about ICH's plans, and the company's share price has collapsed from a high of 98p last year to only 26p last week.

According to the report by the Bank, which keeps a regulatory watch over the business: "In a marketplace characterised by many of the elements of 'perfect competition', it is not surprising that London's broker population has not been static." But the Bank says that the upheavals have not disrupted the efficient operation of the markets.

The main reason why the industry seems to be in a constant state of ferment is the vigorous jockeying for position among the firms, and the independent-mindedness of managements — neither of which necessarily produce the most profitable results.

After the boom times of the mid-1980s, all the firms are now having to adjust to less certain times, and this is adding to the strains. And there is constant pressure from banks to drive down commissions.

The tendency has been for the larger firms to grow larger because they can afford the heavy investment in communications and processing technology, and for smaller firms to develop specialist niches. The process of concentration and polarisation will probably be intensified by the integration of the European financial markets as part of the 1992 process.

Mr Clive Hollick, the chief executive of MAI, which has been one of the more stable members of the industry, says: "Our confidence in the future of full service money broking is reflected by our increased investment in training, product development and innovative technology." MAI will be unveiling a new automated dealing system developed jointly with Cable and Wireless today.

In spite of the corporate dramas, many of the actual businesses are doing well thanks to steadily rising dealing volumes. According to the Bank of England, turnover in the main broking markets nearly doubled between April 1988 and March 1990 from £1,464bn a month to £2,652bn, though it says that competitive pressures mean that this has not always been translated directly into equally rising profits.

Mr Gary Klesch, the chairman and owner of Quadrex, says RP Martin is doing well in spite of all the adverse publicity over the lawsuit with B&C.

"The litigation has not affected the company at all," he says. "If there were dark clouds over our business, they have now moved over our competitors." He says profitability is "tracking the industry".

Mr John Chester, analyst at Warburg Securities who follows the money brokers, says of the industry: "Despite its appalling corporate record, the business itself does seem to be doing quite well."

The possibility of a change in Exco's ownership has thus sharpened expectations within the industry. But the challenge for B&C will lie in preserving Exco's value.

Money broking is notorious for the poor loyalty of both staff and customers, and a declining firm can quickly lose both. That is why analysts say that if Exco does intend to sell, it will have to do so quickly.

Queens Moat bids for Echo Hotel

By Nikki Tait

QUEENS MOAT HOUSES, the quoted hotels group, is acquiring a substantial minority stake in Echo Hotel, a BES company whose main asset is a 300-bedroom hotel on Clydeside. It is also making an offer for the remaining shares in Echo.

The four founding shareholders of Echo — who include Inter-Continental Hotels with 11 per cent and failed construction group, Rush & Tompkins, with 8 per cent — have agreed to sell an aggregate 39 per cent holding to Queens Moat at 165p a share.

The offer for the outstanding shares, required by the Takeover Code is pitched at the same price and values the equity at £14.1m.

Echo, however, is recommending that the remaining shareholders — who came into the unquoted group under the Business Expansion Scheme a year after the initial subscribers — should not accept, for tax reasons.

Queens Moat has said it will make a further bid in 1993 when the BES qualifying period ends. The price offered then would reflect Echo's net asset value, subject to a minimum price of 165p a share.

Echo Hotel has debts of around £13m. Aside from the acquisition of the equity, Queens Moat will also inject £8.25m in return for convertible loan stock, which will help refinance borrowings.

COMPANY NEWS IN BRIEF

HAWTIN plans to acquire Powersport, which designs and manufactures fitness training equipment, for £2.9m satisfied by £2.3m cash and 3.6m shares. The deal is subject to shareholder approval.

NESTOR-BNA said that 68.84 per cent of the recent rights issue was taken up. The remaining 5.63m shares have been sold in the market at 104½p, a premium of 0.24 per cent over the 104p issue price.

NEW EUROPEAN WARRANT Company: the minimum subscription level of 800,000 units has not been achieved, and proposed placing will not now proceed.

SINCLAIR (WILLIAM) is buying FJ Alton and Partners, Stourbridge-based maker of pet treats and feed supplements for the pet and equestrian markets. Initial consideration is £436,632 in 213,333 shares, which have been placed; there is also a deferred cash payment provision of about £32,000 based on turnover for 12 months following completion.

SOUTHEND PROPERTY is selling various properties for about £34.5m; they have rental income of about £2.3m.

SPEAR (JW): 1989 pre-tax profits £1.3m (£509,000) on sales of £19.7m (£17m). Earnings fully diluted 15.32p (4.36p). This reflects the merger, last June, between Spear and the French distributor, Habourdin International, and the results have been prepared on a merger accounting basis.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Argos (Section: Drapery & Stores)

QS Holdings (Drapery & Stores)

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

[illegible]

FUTURE DATES

Interims—

Anglo Scandinavian Inv	May 22
Avon Rubber	[illegible]
Bass	May 22
Bett Brothers	May 23
Cons Co Bultfontein Mine	May 25
Fleming High Inc Inv Tst	May 16
Great Western Resources	May 21
[illegible]	[illegible]

FINANCIAL TIMES STOCK INDICES

	May 11	May 10	May 9	May 8	May 4	May 3	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	77.05	76.35	76.10	76.24	75.98	74.89	84.20	74.13	127.4	49.18
Fixed Interest	85.93	85.61	85.36	85.18	85.35	84.74	92.91	83.80	105.4	50.53
Ordinary	1708.8	1690.8	1695.6	1710.1	1696.8	1676.6	1968.3	1653.6	2008.6	49.4
Gold Mines	227.7	227.9	226.6	227.0	215.6	215.5	378.5	215.5	734.7	43.5
FT-Act All Share	1074.94	1066.78	1068.97	1076.89	1067.95	1056.51	1226.83	1043.16	1238.57	61.92
FT-SE 100	2175.9	2157.0	2162.7	2182.0	2162.2	2134.9	2463.7	2103.4	2463.7	[illegible]

EUROCREDITS

RTZ establishes new credit arrangement

WHEN RTZ Corporation decided to amend its loan agreements to refinance a credit raised last year to finance its acquisition of most of British Petroleum's mineral assets, it faced a host of legal obstacles.

Securing the necessary agreement from each of the 58 banks – to convert the company's US dollar acquisition financing into a credit to back up a US commercial paper programme – was going to be difficult, particularly since some banks had sold their exposure to others.

So, rather than arrange another syndicated credit, the company decided to establish a series of bilateral agreements with banks to raise $1.2bn. After consultations with lawyers and three leading banks on the terms, each bank was presented with non-negotiable document by the company.

As a result, according to Mr Tony Lighterness, deputy finance director, the company estimates it saved $1.2m on the usual 10 basis point arrangement fee. It also reckons it saved a further $600,000 a year on the annual commitment fee it would probably had to have paid had the credit been syndicated conventionally among banks. (That suggests the commitment fee actually paid was in the region of 10 basis points.) The agreements are for four years, extendable for a further three.

Since it expects to raise funds in the US commercial paper market at rates significantly below London interbank offered rates, the whole financing represents a significant saving on the 40 basis points over Libor paid on the acquisition credit.

The new credit arrangement, expected to be in place by the end of June, will also be much simpler to amend if necessary.

RTZ – which is also shifting some resources from the UK to the US to pay down the rest of the eight-year acquisition credit – is talking to Canadian banks about how to refinance a C$700m, five-year credit with a 30 basis point margin it raised at the same time.

The arrangement of such bilateral deals can only be another source of worry to banks already suffering from weak syndicated loan market activity.

The method seems appropriate for high-quality companies with relatively sophisticated finance departments. While several big companies have by-passed the syndicated loans market over the past five years, the perceived drawbacks of syndicating loans will be exaggerated by the way banks sell rather than hold their loans these days.

Elsewhere, the ECC Group is raising $600m over three years from a syndicate of banks led by Chase Investment Bank to finance its proposed acquisition of Georgia Kaolin. If conditions permit, The company would refinance this by expanding to $400m from $200m the amount of outstanding auction-rate preferred shares in the US and by disposing of £100m of its "non-core businesses."

The credit rating of the company was placed under review by Standard & Poor's following the announcement of the planned acquisition – potentially significant because it could affect its ability to issue auction-rate preferred. The company says the S&P rating will not fall below A-minus, its current Moody's rating, so the preferred issue should not be affected.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	420.0	50.0	0.0	9,783.2
Prev	64.0	0.0	303.8	15,505.3
Other	1,183.5	0.0	19.1	5,368.2
Prev	682.2	73.5	[illegible]	4,129.2
Secondary Market				
US$	13,133.1	605.1	4,799.1	5,989.5
Prev	17,204.2	632.6	5,064.3	10,475.9
Other	14,547.2	887.1	3,712.1	26,154.9
Prev	18,061.8	737.3	4,980.0	36,783.1

	Cedel	Euroclear	Total
US$	12,651.3	22,098.7	34,750.0
Prev	19,334.9	29,917.2	49,252.1
Other	21,980.8	29,891.3	51,872.1
Prev	29,272.9	39,063.8	68,336.7

Week to May 10, 1990 Source: AIBD

INTERNATIONAL BONDS

A testing week ahead in Amsterdam for the AIBD

IN AMSTERDAM on Wednesday, the Association of International Bond Dealers begins its 22nd Annual Meeting. The conference promises to be the scene of heated debate because of difficult conditions on the bond markets and the Association's attempts to define its international role.

The collapse of equity-related new Eurobond issuance, most obviously the Japanese equity warrant business, and the relative quiescence of most fixed-rate markets this year have put an unprecedented premium on cost-saving developments.

The AIBD finds itself at the head of two projects which, if implemented, will save many millions of dollars for the banks and securities houses active in the Eurobond market. Whatever the formal agenda for the conference, these initiatives are what really count.

Both projects involve the AIBD in complex and political negotiations with the two international clearing systems, Euroclear and Cedel. Its status as the recognised self-regulatory body of the Eurobond market gives it influence, but it has little formal power over the clearers.

It has been to the frustration of the AIBD officials involved that the Association has sometimes found itself acting as an intermediary between the clearers' commercial struggles.

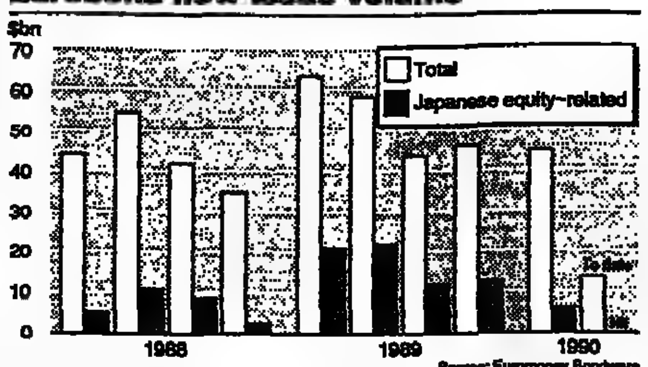
The more important of the projects, the formation of a joint communications network, may receive less attention in Amsterdam because for most of the last year its development has been obscured by the public row over the AIBD's rule 221 concerning settlement of new Eurobond issues.

All three parties have their own reasons for agreeing that the network should be implemented as quickly as possible. From the AIBD's perspective, it should provide the vehicle for the eventual extension of its electronic Trax system to its wider membership. Currently, Trax membership is only compulsory for UK-based members and reporting dealers.

Behind the scenes, negotiations over the network have reached an advanced stage. Recently, a tri-partite technical team agreed on the feasibility of a single communications network which will allow the simultaneous transmission of trade matching and reporting instructions via the Trax and ACE systems, as well as settlement instructions to the clearers.

If implemented, members will be able to key in transaction data through a single monitor. Although some of the big users have already automated their in-house operations, the main advantage of the joint network will be a significant reduction for the whole market in communications costs.

Eurobond new issue volume



The most important remaining issue to be solved before the network can be created is the question of ownership. The principle of equal one-third ownership has been agreed by all parties, but the precise structure is still under negotiation and there is much room for disagreement.

If the AIBD can navigate its way towards equal participation in a successful joint network, it will have done much to justify its backing of the Trax system which some members have always regarded with suspicion. Without Trax and the resulting ownership of price information, it would have little leverage over the clearers.

The studied resistance of UK opponents of Trax forced the AIBD to adopt the heavy-handed policy of introducing financial penalties for inadequate or incorrect use of the system. The conference is likely to be told that the fines, in force since April, have already achieved their main purpose, more consistent application of trade reporting rules.

Nevertheless, the unfortunate introduction and subsequent withdrawal of a much harsher penalty regime last year following vociferous complaints from the UK membership laid down a longer-term warning to the AIBD.

Many continental members make little secret of their reluctance to adopt Trax and without the network the AIBD will have a hard job persuading them.

The second of the two projects is expected to be the subject of critical debate in Amsterdam. AIBD rule 221, which started life over a year ago as an attempt to streamline settlement procedures for newly issued Eurobonds, has caused protracted and bitter arguments between Euroclear and Cedel.

The AIBD has stood uneasily in the middle, attempting to preserve its integrity as a regulator. Senior officials believed they were close to achieving an acceptable implementation of rule 221 and were confidently expecting to announce this to the conference.

However, Euroclear's recent rejection of the AIBD and Cedel's preferred solution to the rule 221 problem shattered the last impression that a reluctant consensus had formed. Negotiations are currently suspended while the AIBD ponders its reaction to Euroclear's alternative proposals.

Rule 221 placed the AIBD in a difficult, perhaps impossible, position. The Association recognised early on that the rule raised serious questions over the continuing existence of the electronic bridge agreement by which the two clearers exchange settlement information.

What it may not have foreseen was that these questions could not be contained within arguments over new issue settlement. More recently the AIBD has addressed the wider bridge problem head-on, describing it as an anachronism of which neither clearing system can be proud.

Solving the rule 221 problem would save the market a few million dollars. The abolition of the clearers' 1980 bridge agreement and its replacement by a contract incorporating 10 years of rapid market development would push the savings into the realms of serious money.

That this is regarded as increasingly urgent by the Association's membership is best described by the chart which shows this year's stagnation on the Eurobond market.

Last year's peaceful mood in Vienna was sustained by what hindsight has shown were profits creamed from the extraordinary revenues generated by Japanese equity-related business. So far, not a single Japanese equity-related deal has emerged this quarter.

On top of this, underwriters are increasingly, but seriously suggesting that the profits of their fixed-rate business are not enough to cover overheads.

From that perspective, Amsterdam is a testing ground of the AIBD's self-proclaimed status as an intelligent, self-regulating supervisor of the international capital markets.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Shizuoka Finance (HK)(e)♦	20	2000	10	(e)	102	Mitsubishi Finance (HK)	-
Cellular Inc.(f)§♦	50	2000	10	8	100	Kidder Peabody Int.	8.000
CANADIAN DOLLARS							
Ford Motor Credit Canada♦	100	1995	5	13⅛	101.70	Wood Gundy	12.848
AUSTRALIAN DOLLARS							
Barclays Australia Int.(b)♦	50	1993	3	15	101.35	BZW	14.414
World Bank♦	100	1996	6	14½	102	Hambros Bank	13.986
SBC (Australia)♦	100	1994	4	14¾	102	Swiss Bank Corp.	14.063
NEW ZEALAND DOLLARS							
Societe Generale Australia♦	50	1992	2	13¾	101.95	Hambros Bank	12.587
D-MARKS							
Belgium, Kingdom of(a)‡♦	400	1995	5	-⅛	100.10	Commerzbank	-
World Bank♦	250	2000	10	8⅞	101⅝	Bayerische Landesbank	8.626
SWISS FRANCS							
General Electric Cap.Corp.♦	150	1995	-	7½	102	UBS	7.012
Soc.Quebec.d'Ass.des Eau♦	125	2000	-	7½	101¼	Wirtschafts-and Privatbk	7.248
Asfinag♦	200	2000	-	7¼	100¾	SBC	7.143
ECUs							
Toyota Motor Credit Corp.♦	150	1994	4	10⅝	101⅝	Paribas Capital Markets	10.111
STERLING							
Gefco♦	250	2002	12	12⅞	99.406	BZW/Warburg	12.975
Alliance & Leicester(c)♦	100	1995	5	14¼	100.475	Baring Brothers	14.111
FRENCH FRANCS							
Credit Lyonnais♦	1bn	1995	5	10	101⅝	Credit Lyonnais	9.576
EIB♦	1.5bn	2000	10	10	100.18	Credit Lyonnais	9.971
LIRE							
ECSC♦	200bn	1995	5	12⅛	101.30	Banco di Roma	11.766
PESETAS							
EIB(d)♦	20bn	2000	9.6	13.9	99½	Banco Bilbao Vizcaya	13.969
GUILDERS							
SHV Holdings NV♦	200	2000	10	9⅜	101½	Bank Mees en Hope	9.140
FINNISH MARKKA							
Export Dev. Corp.(Canada)♦	500	1993	3	13¼	101⅛	Postipankki	12.775
Abbey National Treasury♦	150	1992	2½	14	101.65	Bankers Trust Int.	13.078
YEN							
PKbanken♦	10bn	1992	2¼	6¼	100⅜	Mitsui Trust Int.	6.546
LKB Baden-Wuerttemberg♦	5.5bn	1992	2¼	6¾	100.3425	IBJ Int.	6.561
Okobank(g)♦	10bn	1995	5	7.4	101⅞	Nomura Int.	6.943
Kansallis-Osake-Pankki(h)♦	2bn	1992	1⅔	8	101⅛	Nippon Credit Int.	7.216

★★Private placement. ‡Floating rate notes. §Convertible. ♦Final terms. a) Coupon pays ⅛% under 6-month Libor. Non-callable. b) Fungible with existing A$75m bond launched in January. c) Fungible with existing £100m bond from June 8. Issue price plus accrued interest. d) Fungible with Pta15bn bond from March 1991. e) Coupon pays 45bp over 6-month Libor between end May 1990 and end Oct. 90. Until end April 1992 45bp over 6-month Libor. Thereafter 10¼% p.a. Call after two years at par. f) Conversion price $14.95. Non-callable. g) Call after two years at par. h) Redemption linked to Nikkei stock index. Note: Yields are calculated on AIBD basis.

A rich diet of economic indicators

IS THE US bond market overtrading on the basis of specious macro-economic data? Or not?

Not at all, if one accepts the conventional wisdom, which is the unexpectedly sudden weakening of the US economy implicit in the rally-rousing data of the past two Fridays and the fact that the long bond's yield has tumbled by 36 basis points from its Olympian heights of 9.02 per cent just a fortnight ago.

The conventionally minded fixed income market was in conventionally high spirits at the end of last week as the latest round of economic statistics – a drop in the producer price index (PPI) and weaker April retail sales figures – appeared to confirm the weakness of the US economy already suggested by gloomy April employment figures.

The rally on Friday, for the second consecutive week, thus produced a 1¼ point jump on the day in the price of the benchmark 30-year Treasury long bond, with the yield falling 14 basis points on the week, to 8.66 per cent. So far so good on a conventional basis.

The data that fired the market's enthusiasm would appear to indicate a dramatic shift in both the inflation outlook and the health of the overall economy. Two weeks ago interest rates were worrying, the economy seemed to be rebounding and investors had pushed the long bond's yield above 9 per cent, fearing a tightening of credit policy by the Fed.

Friday's 0.3 per cent decline in the April PPI inflation, in common with the worse than expected April employment figures, suggests that credit policy will be left unchanged tomorrow at the Federal Reserve's Open Market Committee (FOMC) meeting.

And the 0.6 per cent April retail sales drop, the biggest decline since last October, underscores both the continuing softness of consumer spending and the Fed's need to worry more about recession than rebound.

This week's diet of economic indicators is rich, and includes two choice morsels for the market. These are tomorrow's industrial production data, which could indicate further weakness of the economy and Wednesday's consumer price index (CPI), which could offer additional evidence that inflationary pressure is waning.

Mr Robert Brusca, chief economist at Nikko Securities, points out that the PPI figures are usually more volatile than the consumer rate and says this week's CPI figure is likely to confirm the PPI. "When inflation breaks out, it usually rears its ugly head first in the producer area and likewise, when it cracks, that shows up first in produce prices too."

The Americans certainly love their economic indicators and nowhere is the herd instinct on better display than in the market's knee-jerk reaction to the *stats*.

The few contrarians out there argue that the drastic change in expectations triggered over the past six trading days may offer strong signs of a weakening in the economy, but tends to ignore potential threats to the rally and, more than anything else, indicates that it may be premature to judge the macro outlook over the next three quarters.

Up until Friday's PPI and retail stats the market's behaviour last week was predictable enough. Treasury prices softened going into the three-day $30.5bn auction of three, 10 and 30-year securities and strengthened on the way out.

The Japanese, contrary to some forecasts, did not lose their appetite for Treasury paper. Retail buyers put in a respectable appearance in the three and 10-year auctions, confirming that America's notoriously low savings ratio may be experiencing a momentary inversion.

Yet hardly anyone in the bond market appeared to be much moved by the noise coming from Washington, where President Bush and Congressional Democrats are engaged in what is widely described as an "Alfonse and Gaston" pantomime over who will be the first to propose a desperately needed tax hike.

The tax-and-budget show, which stars Mr George "Read my lips: No new taxes" Bush at his most wafflingly indecisive best and the Congressional Democrats as the Cowering Crusaders against the deficit, would be vaguely amusing were it not for the genuine risk of yet another year of mediocre fiscal management and non-decision.

The leading monetary authorities – Greenspan of the Fed, Seidman of the FDIC and Clarke the Comptroller – meanwhile made a point of urging bankers not to abandon their crisis-ridden real estate customers and insisting that their attempts to impose a more stringent discipline on bank lending were not *really* intended to suggest a more stringent discipline on bank lending.

Wall Street, which is well acquainted with both the sorry state of real estate and with Washington's continuing tax trauma, chose not to read anyone's lips. Instead, the computer-literate and number-crunching Wall Street crowd prefers to focus on the daily stats at the end of its collective nose. One man in a contrarian mood, however, is Mr David Hale, chief economist at Kemper Financial Services in Chicago, who grouses that the bond market has spent the opening months of 1990 well and truly overtrading on scattered and specious data. And perhaps he has a point.

Mr Hale reckons the deficit scare has yet to emerge as an issue and says there is growing evidence of a widening of the fiscal deficit "as a consequence of weak corporate tax receipts, steady growth in ordinary government spending and the large increase in thrift industry bail-out costs."

The bond market, claims the man from Kemper, is "derivative driven" by the stats and is trading ever greater sums of money on the basis of economic data whose indicative quality is deteriorating.

Threats to the present rally could include a 1990 deficit blow-out beyond anyone's expectations, a reassessment of the April employment data as distorted by the Easter Holiday and a US dollar whose prospective weakening has not yet been digested by the market.

Also, it seems likely that profit takers will become a factor given a 3½ point run-up in the price of the long bond in just two weeks. The middle ground lies somewhere between those who are now Nouveau Bears on the economy and Nouveau Bulls on the bond market and those few doubting souls in the "it's still too early to tell from the figures" camp.

The truth may well be that a deficit-scare is still to come even though inflation does appear to be easing. The US economy remains patchy, with a consensus prognostication of a low-growth channel, but this need not exclude the prospect of sectoral or macro-statistical blips. For the time being however, the market has decided that the economic indicators are anything but specious. Why stand about arguing – say the short-termers – when there's money to be made?

Alan Friedman

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.31	8.13	8.19	9.92	8.00
Three-month Treasury bills	7.86	[illegible]	8.00	9.11	7.20
Six-month Treasury bills	8.05	8.23	8.19	9.37	7.18
Three-month prime CDs	8.32	8.44	8.35	10.35	8.10
30-day Commercial Paper	8.13	8.30	8.23	9.95	8.05
90-day Commercial Paper	8.16	8.30	8.17	10.05	8.10

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99	+[illegible]	8.68	8.82	8.65
20-year Treasury	105[illegible]	+[illegible]	8.73	8.91	8.74
30-year Treasury	98[illegible]	+[illegible]	8.66	8.82	8.58

Money supply: In the week ended ended April 30 M1 fell by $0.3bn to $805.4bn.

NRI TOKYO BOND INDEX

December 1985 = 100	10/5/90	Average yield† (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	143.72	7.27	142.99	143.95	147.63
Government Bonds	141.51	7.09	140.60	142.61	147.46
Municipal Bonds	145.92	7.32	144.60	145.50	148.90
Govt.-guaranteed Bonds	147.71	7.40	146.96	147.65	150.14
Bank Debentures	141.16	7.44	140.49	139.91	142.15
Corporate Bonds	146.20	7.52	145.98	146.66	150.65
Yen-denom. Foreign Bonds	152.65	7.63	152.46	152.31	156.46
Government 10-year	6.81		6.71	6.12	5.43

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Some time still to kill before rally

IT ISN'T over 'til it's over, said Yogi Berra, the US baseball player. The gilts market might remember his remark this week.

For the UK economy, the point at which it will be over is a long way in the future. The Retail Price Index, released this Friday, will indicate how bad inflation may get, but not how long the situation will take to improve. Consequently the gilts market may have some time to wait for its long-promised rally.

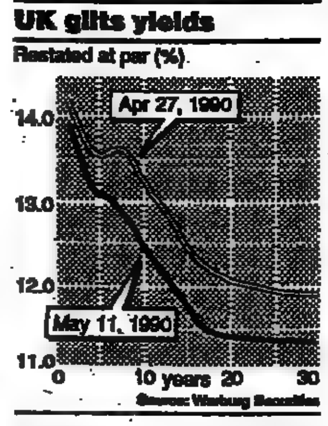
Analysts said on Friday that the strong positive reaction on Friday to the local government election results reflected the fears that had run around the market in advance of the results rather than hopes that things had reached a turning point. It also followed strong bond market performances in the US and Germany.

The benchmark Treasury 11¾ per cent 2003/2007 ended Friday 2⅛ higher at 97¼ to yield 12.05 per cent, one of the strongest one-day performances all year. Gilt futures also had a strong day; they advanced after moving through key chart points. On the London International Financial Futures Exchange, June long gilts were trading at 80¾, up 2¼ from late Thursday on heavy volume.

The reaction was remarkably favourable considering the Conservative losses. "The market was phenomenally oversold," said Mr Peter Spencer of Shearson Lehman Hutton. "It was squeezed, and was due for a technical rally," said Mr John Shepperd of Warburg Securities. But, Mr Spencer emphasised: "The political and economic landscape has not changed. There is still a major inflation problem and a very substantial Labour majority built into the electorate."

UK gilts yields

Restated at par (%)



Despite last week's rise, retail investment interest is still absent. The buying came mainly from market makers trying to square their books, rather than retail investors, said Mr Shepperd. Indeed, earlier in the week there had been significant selling from Japan, said Mr Ian Abrams of Nomura Gilts.

The market's political fears have been linked with the UK's economic problems, and there is still no sign of an end to the latter.

The market's median expectation for the RPI is for a monthly rise of 3.3 per cent, according to the forecasting group IDEA, and 3.0, or 9.4 per cent, according to MMS. Whatever the market forecasters say, there is a widespread belief that anything under double figures would be a relief.

Assuming that the market has discounted a high forecast for RPI, it could thus rise even on relatively high monthly inflation – greater than the annual rate of many of our European neighbours. This is indicative of the mood: once the bad news is out of the way, gilts will become attractive again.

But the inflationary problem will not be solved by one month's figure, especially given the uncertainty of the Government's statistical releases. Most forecasters are predicting that August will see the inflationary peak. The inflationary profile can be bent if wage rises follow the price trend, or if food prices fail to come down in line with the Government's predictions.

Given the concerns about wage inflation, the Confederation of British Industry Industrial Trends survey provided some hope by indicating a continuing fall in manufacturing employment. This has yet to show up in the unemployment figures. The International Monetary Fund noted last week: "The question remains whether [UK] monetary policy is sufficiently tight to arrest and then gradually reverse cost-price pressures, particularly in view of the tight conditions prevailing in labour markets."

The overseas environment still seems unpropitious for a general bond market recovery. Real interest rates have risen by nearly a percentage point in the Group of Seven industrialised countries since the beginning of the year, according to Mr Peter Fellner of Consensus Economics. In the UK, taking the difference between the expected 10-year inflation rate and the nominal 10-year bond yield, the real rate of interest has risen to 7.5 per cent, he says. This compares with 4.5 per cent in the US, 5.7 per cent in Germany and 5.3 per cent in Japan.

The good omens in other bond markets last week may prove difficult to repeat, and world interest rates are likely to be higher by the end of the summer. The Government's policy bind over inflation and interest rates is unlikely, therefore, to disappear much before the end of the year.

This is reflected in the City's forecasts of increased inflation for the fourth quarter. It also incorporates a growing belief that interest rates cannot come down; indeed, they may have to rise once more. If so, the political situation may also have yet to reach its trough.

Sterling may be the lever upon which these political and economic pressures press.

By-elections are, in a sense, like economic indicators. They give a snapshot of reality, depending on what sample is taken and which time period. Both the elections and the RPI figures may show that things are not as bad as the markets had discounted; they do not prove that the Government's policy dilemmas have disappeared.

Andrew Marshall

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8⅞ 95	150	98	+⅛	9.49
AGN 9¼ 94	200	98⅝	+⅛	9.39
AETNA LIFE & CAS 7⅞ 16	300	95⅝	+⅛	8.39
ANFC O/S FIN 11¼ 94	100	100⅝	+⅛	11.46
ALBERTA PROVINCE 7⅞ 93	750	97⅝	+⅛	9.18
ALBERTA PROVINCE 9⅛ 95	600	99⅝	+⅛	9.38
ALCOA AUSTRALIA 11 92	80	100⅝	0	10.75
AMERICAN EXPRESS 0 08	400	37⅛	+⅛	9.78
AMERICAN GENERAL 9⅞ 95	100	95⅛	-⅛	10.86
ANHEUSER-BUSCH 9⅛ 92	100	99⅛	+⅛	9.45
ASIAN DEV BANK 0 04	1,000	27⅝	+⅛	9.41
AUSTRALIA 11 95	200	106⅝	+⅛	9.73
AUSTRALIA 11¼ 00	100	106⅛	+⅛	10.16
AUSTRALIAN WHEAT 9⅛ 93	200	99⅛	+⅛	9.39
AUSTRIA 7¼ 97	200	92⅛	+⅛	9.36
AUSTRIA 8⅛ 90	200	99⅝	+⅛	9.28
AUSTRIA 8⅞ 00	175	94⅛	+1⅛	9.53
BANK OF TOKYO 8⅞ 96	100	95⅛	+⅛	9.81
BARCLAYS JERSEY 10⅛ 98	250	100⅛	+⅛	9.51
BARCLAYS JERSEY 10⅝ 95	250	103⅛	+⅛	9.73
BELGIUM 7⅛ 91	250	97⅝	+⅛	9.26
BELGIUM 9⅛ 92	400	99⅝	+⅛	9.20
BELGIUM 9⅞ 98	250	100⅝	+⅛	9.59
BETAWEST PROP 7⅞ 93	150	94⅝	+⅛	9.76
BFCE 7¼ 93	100	94⅝	+⅛	9.57
BFCE 7¼ 97	150	91⅝	+⅛	9.82
BK NOVA SCOTIA 7⅞ 91 SW	150	97⅝	-⅛	10.02
BNP 8⅛ 94	300	97⅛	+⅛	9.46
BNP 8⅛ 93	125	97⅛	+⅛	9.87
BP AMERICA 9⅛ 99	250	99⅝	+⅛	9.80
BP CAPITAL 9⅛ 93	150	99⅛	+⅛	9.69
BP CAPITAL 11⅛ 92	150	101⅛	0	10.31
BRIT COL HYDRO 11⅛ 93	200	105⅛	+⅛	9.87
BRITISH GAS INT FIN 8⅛ 99	350	92⅛	+1⅛	9.64
BRITISH TELECOM FIN 9⅛ 98	250	98⅛	+1⅛	9.58
CAMPBELL SOUP 10⅛ 95	100	101⅛	+⅛	10.16
CANADA 9 96	1,000	99⅛	+⅛	9.16
CANADA 10 95	1,000	102⅝	+⅛	9.29
CANADIAN PACIFIC 7⅞ 96	100	90	+⅛	10.02
CANADIAN PACIFIC 10⅛ 93	100	100⅝	+⅛	10.39
CCCE 7⅛ 92	113	97⅛	+⅛	9.27
CCCE 9⅛ 95	300	99⅛	+⅛	9.37
CENTRUST SAVINGS 0 16	1,200	10⅝	+⅛	11.98
CEPME 7⅛ 92	125	96⅛	+⅛	9.25
CHEVRON CORP 8⅛ 96	300	92⅛	+⅛	9.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LINCOLN NATIONAL 9⅛ 95	100	98⅛	+⅛	10.80
LTCB 8⅛ 93	150	98	+⅛	9.44
LTCB 9⅛ 92	200	99⅛	+⅛	9.44
LTCB FIN 8 97	200	91⅛	+⅛	9.83
MANITOBA 7⅛ 96	150	90⅛	+⅛	9.74
MANITOBA 8⅛ 92	125	99⅛	+⅛	9.73
MARKS & SPENCER 8⅛ 96	150	93⅛	+⅛	9.44
MARUBENI 11⅛ 91	100	101⅛	0	10.07
MERCEDES CREDIT 7⅛ 93	100	92⅛	+⅛	9.66
MERRILL LYNCH 8 93	200	93⅛	+⅛	10.27
METLIFE FUNDING 7⅛ 96	150	90⅛	+⅛	9.86
MITSUBISHI CORP FIN 7⅛ 92	150	96⅛	+⅛	9.35
MITSUBISHI EST 10⅛ 92	50	101⅛	+⅛	9.71
MITSUBISHI FINCHO 7⅛ 93	100	94⅛	+⅛	9.69
MITSUBISHI FINCHO 11⅛ 90	100	100⅛	0	8.92
MITSUI TST FIN HK 7⅛ 94	200	93⅛	+⅛	9.75
MOBIL CORPN 10⅛ 90	200	99⅛	0	12.45
MOTOROLA 12 94	75	106⅛	+⅛	10.33
MOUNT ISA FIN 11 95	100	100⅛	+⅛	10.90
NAT WEST FIN 11⅛ 92	150	103⅛	+⅛	9.84
NED GASUNIE 11⅛ 90	75	100⅛	+⅛	9.50
NEW ZEALAND 7⅛ 91	250	97⅛	+⅛	9.40
NEW ZEALAND 8 93	100	95⅛	+⅛	9.69
NEW ZEALAND 10⅛ 95	200	100⅛	+⅛	10.10
NIPPON CRED BK 7⅛ 91	100	97	+⅛	9.56
NIPPON CRED BK 9⅛ 93	150	100⅛	+⅛	9.49
NIPPON TEL & TEL 9⅛ 95	200	100⅛	+⅛	9.29
NISSAN ACCEPT CORP 9⅛ 91	150	99⅛	+⅛	9.62
NORWAY 7⅛ 91	500	97⅛	+⅛	9.15
OCCH 8⅛ 93	150	96⅛	+⅛	9.78
OLYMPIA & YORK 8⅛ 96	435	89⅛	+⅛	10.69
ONTARIO HYDRO 11⅛ 94	200	105⅛	+⅛	9.65
ONTARIO HYDRO 11⅛ 90	200	100⅛	0	9.32
ONTARIO HYDRO 13⅛ 91	100	103	0	9.26
ONTARIO HYDRO 15 92	150	110⅛	+⅛	9.48
OSAKA PREFECTURE 9⅛ 93	140	100⅛	+⅛	9.30
OSTER KONTROLLBANK 8⅛ 93	200	97⅛	+⅛	9.25
OSTER KONTROLLBANK 9⅛ 92	200	99⅛	+⅛	9.31
PACIFIC GAS & ELEC 12 00	75	106⅛	+⅛	10.80
PEPSICO 7⅛ 93	200	93⅛	+⅛	9.83
PEPSICO CAPITAL 8⅛ 92	100	98⅛	0	10.02
PETRO-CANADA 7⅛ 96	200	89⅛	+⅛	9.57
PHILIP MORRIS 9⅛ 98	200	97⅛	+⅛	10.27
PROCTER & GAMBLE 10 95	150	100⅛	+⅛	9.92
PRUDENTIAL FUNDING 7⅛ 91	150	98⅛	+⅛	9.43
PRUDENTIAL RLTY SECS 0 99	365	44⅛	+⅛	9.67
QANTAS AIRWAYS 8⅛ 96	97	95⅛	+⅛	9.74
QUEBEC HYDRO 9⅛ 98	150	99⅛	+1⅛	9.80
QUEBEC PROV 9 98	300	96	+⅛	9.74
QUEBEC PROV 15 90	150	101⅛	-⅛	9.82
QUEENSLAND GOVT 10⅛ 98	100	102	+⅛	9.72
RALSTON PURINA 11⅛ 95	150	104⅛	+⅛	10.44
REYNOLDS (RJ) 10⅛ 93	100	87⅛	+⅛	15.65
RICHARDSON-VICKS 11⅛ 93	125	101⅛	+⅛	10.83
ROCKWELL INT 9⅛ 90	200	99⅛	0	10.08
SAINSBURY 9⅛ 96	150	96⅛	+⅛	9.78
SARA LEE 9⅛ 93	150	98⅛	+⅛	9.99
SAS 10⅛ 93	150	100⅛	+⅛	10.07
SASKATCHEWAN 8⅛ 91	150	99⅛	+⅛	9.80
SASKATCHEWAN 15 92	150	110	+⅛	9.70
SEAGRAM CO 8⅛ 96	100	92⅛	+⅛	10.18
SEARS O/S FIN 0 98	500	44⅛	+⅛	10.94
SEARS O/S FIN 11⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]
SEARS ROEBUCK 8⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
SKANDIA INTL 7⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 7⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 9⅛ 98	[illegible]	[illegible]	[illegible]	[illegible]
STATE BK STH AUST 9⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]
STATE EL VICTORIA 10 92	[illegible]	[illegible]	[illegible]	[illegible]
STATOIL 7⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]
STH AUST GOVT FIN 8⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]
SUMITOMO FIN ASIA 11⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]
SUMITOMO TST 7⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 7 92	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 8⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]
SWEDISH EXPORT 8⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]
SWEDISH EXPORT 9⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]
TAIYO KOBE 7⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]
TENNECO CORP 10⅛ 95	[illegible]	[illegible]	[illegible]	[illegible]
TOKAI ASIA 11⅛ 95	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO METROPOLIS 8⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]
TORONTO-DOM 8 90	[illegible]	[illegible]	[illegible]	[illegible]
TOYOTA MOTOR FIN 8 92	[illegible]	[illegible]	[illegible]	[illegible]
UBS FIN 9⅛ 02	[illegible]	[illegible]	[illegible]	[illegible]
UNILEVER CAP CORP 9⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]
UNITED TECHNOLS 7⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]
VICTORIAN PUB AUTH 8⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]
WARNER-LAMBERT 8⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]
WELLS FARGO 15⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 7 92	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 9 97	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]
XEROX CORPN 8⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOYO TST & BANKING 1⅛ 02	100	70⅛	+4⅛	8.28
UTD BISCUITS 5⅛ 05 PREF £	110	104⅛	+2⅛	-0.61

FLOATING RATE NOTES	Spread	Bid	Offer	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NORTHEAST SAVINGS 1/10 96	150	98⅛	0	8⅛
NORTHERN ROCK ⅛ 95 £	100	99⅛	0	15⅛
PNC FIN ⅛ 97	100	96⅛	+⅛	8⅛
PORTUGAL 0.05 93	700	99⅛	0	8⅛
PROVINSBANKEN 91	100	99⅛	0	8⅛
QUEBEC PROV 01	300	97⅛	+⅛	8⅛
QUEBEC HYDRO 92	200	97⅛	+⅛	8⅛
REGIE OLYMPIQUES 94	250	99⅛	0	8⅛
RENFE 98	500	99⅛	0	8⅛
SANTA BARBARA S&L ⅛ 98	200	99⅛	+⅛	8⅛
SANWA INTL 0.10 93	100	99⅛	0	8⅛
SCOTLAND INTL FIN ⅛ 92	100	99⅛	0	8⅛
SECURITY PACIFIC ⅛ 97	250	96	+⅛	8⅛
SOCIETE GENERALE ⅛ 94	200	99⅛	+⅛	9⅛
SOCIETE GENERALE 96	300	99⅛	+⅛	8⅛
STATE BK NSW ⅛ 98	250	99⅛	0	8⅛
TAIYO KOBE ⅛ 04	100	99⅛	0	8⅛
TAKUGIN ⅛ 94	100	99⅛	0	8⅛
UNITED KINGDOM -1/8 96	4,000	99⅛	0	8⅛
VEREINSWEST O/S 91	100	99⅛	0	8⅛
WARBURG (SG) ⅛ 06	200	93⅛	+⅛	8⅛
WELLS FARGO ⅛ 97	250	96	+⅛	8⅛
WELLS FARGO ⅛ 94	150	98⅛	+⅛	8⅛
WOODSIDE FIN (JULY) 97	300	98⅛	0	8⅛
WOOLWICH EQUITABLE ⅛ 93 £	200	100	0	15⅛
YORKSHIRE BS 1/10 94 £	100	99⅛	0	15⅛

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ARGYLL GROUP 4⅛ 02 £	60	95⅛	+⅛	35.24
ASDA-MFI 4⅛ 02 £	100	101⅛	+⅛	68.79
BURTON GROUP 4⅛ 01 £	110	104	0	[illegible]
CANON 3 00	100	242⅛	+9⅛	4.22
EASTMAN KODAK 6⅛ 01	300	92	+⅛	19.15
GOODYEAR TIRE 6⅞ 03	150	77⅛	-⅛	77.76
GRACE (WR) 6⅛ 02	150	83⅛	-⅛	28.48
GRAND MET 6⅛ 02 £	100	93⅛	+⅛	6.90
HAWLEY 6 02 PREF	400	105⅛	-⅛	14.06
HILLSDOWN 4⅛ 02 £	150	94⅛	+⅛	60.90
INTL PAPER 5⅛ 02	200	86⅛	-⅛	18.98
KYOWA BANK 1⅛ 02	100	97⅛	+6⅛	7.66
LAND SECS 6⅛ 02 £	84	76⅛	-⅛	9.02
METAL BOX 5⅛ 02 £	65	99	+1⅛	-3.98
MITSUBISHI BK 1⅛ 02	300	85⅛	+3⅛	1.97
OGDEN 6 02	85	83⅛	+⅛	35.56
PIONEER CONCRETE 9⅛ 98 A$	175	49⅛	+1⅛	19.34
SAITAMA BANK 1⅛ 02	100	85	+4⅛	14.51
TEXAS INSTRUMENTS 2⅛ 02	300	75	0	68.56
THORN EMI 5⅛ 04 £	100	98⅛	+⅛	10.30

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅛ 93	20.0BN	96⅛	-⅛	8.16
AUSTRIA 4⅛ 94	30.0BN	92⅛	+⅛	7.04
AVON CAPITAL 6⅛ 91	26.0BN	95	0	10.28
BARCLAYS O/S INV 6 96	40.0BN	93⅛	+⅛	7.37
BFCE 5⅛ 96	20.0BN	92	+⅛	7.43
CANADIAN PACIFIC 6⅛ 96	10.0BN	98⅛	0	7.77
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 9⅛ 97	50	80⅛	+⅛	13.94
BARCLAYS JERSEY 9⅛ 93	250	88⅛	+⅛	14.55
BNP 9⅛ 93	75	89⅛	+⅛	14.23
BRITISH OXYGEN 11⅛ 97	50	95⅛	0	16.50
EEC 11⅛ 94	50	91⅛	+⅛	14.57
EIB 10 97	300	83⅛	+⅛	13.80
FORD CREDIT FUNDING 9⅛ 93	50	88⅛	+⅛	14.04
HALIFAX 9⅛ 93	100	87⅛	+⅛	14.71
INTER AMER DEV 11⅛ 95	75	90⅛	+⅛	14.00
IRELAND 11⅛ 94	50	90⅛	0	14.83
KREDIETBK INTL 10⅛ 92	50	93	+⅛	15.49
LAND SECS 9⅛ 07	200	72	+⅛	13.86
LEEDS PERMANENT 9⅛ 93	50	87⅛	+⅛	14.73
MITSUBISHI FINCHO 11 90	50	99⅛	+⅛	38.49
NORWAY 10⅛ 94	200	89⅛	+⅛	14.25
SAINSBURY 10⅛ 93	100	91⅛	-⅛	14.83
WORLD BANK 11⅛ 95	100	90⅛	+⅛	13.89

EQUITY WARRANTS	Expiry Date	Bid price	Chg on week	Prem
ASAHI CHEMICAL	25/09/91	28	+2⅛	15.89
BRIDGESTONE CORPN	07/10/92	24⅛	+⅛	14.36
CASIO COMPUTER	16/09/92	27⅛	-⅛	30.05
DAIWA HOUSE INDUSTRY	04/06/92	16⅛	+1⅛	77.97
FUJITSU	20/04/93	21⅛	-⅛	40.50
GUNZE	07/05/92	40	+3⅛	13.33
KIRIN BREWERY	23/07/92	12⅛	+⅛	53.44
MEIJI	27/12/91	26⅛	+⅛	8.83
MITSUI REAL ESTATE DEV	20/03/92	22⅛	+2⅛	40.46
NIPPON MEAT PACKERS	17/09/92	15⅛	+2⅛	47.99
NIPPON OIL	14/08/92	18⅛	+1⅛	31.69
TDK	25/10/91	88	+⅛	2.84
TOYO SASH	27/04/93	36⅛	+1⅛	9.47
TOYOTA MOTOR	15/07/92	37⅛	+1⅛	5.70
UNY	17/06/91	37⅛	+8	4.73
YAMANOUCHI PHARM	30/06/92	14⅛	-⅛	61.22

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON 9 92	24/09/92	5	-4	8.71
CREDIT FONCIER 10⅛ 98	07/03/93	151⅛	0	9.83
GMAC 8⅛ 95 B	11/02/91	2	-4	8.68
HEINZ 7⅛ 96	01/10/90	1	0	7.47
MCDONALDS B 10 93	01/01/93	10	-3	9.52
SAS 9⅛ 03	03/06/91	15	-8	9.05

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MAY 11

INTERNATIONAL CAPITAL MARKETS

Tougher 'insider' rules planned for French bourse

By George Graham in Paris

FRANCE'S stock market supervisors have produced a batch of new regulatory texts which will, if approved by Mr Pierre Bérégovoy, the Finance Minister, form the basis of French practice on financial information, insider dealing and market manipulation.

The Commission des Opérations de Bourse (COB), which has drafted the new texts, has based its work closely on the recommendations of a committee chaired by Mr Didier Pfeiffer, managing director of the UAP insurance group.

The commission was set up following public doubts over whether several leading financiers involved in the 1988 stock market raid on Société Générale, the privatised bank, had profited from privileged inside information.

The texts lay out a clear definition of inside information, covering both the directors and employees of a company and any of their advisers. They forbid these insiders either to profit from the information they possess or to pass it on to anyone else.

The COB also wants all listed companies to publish "exact, precise and sincere" information on any important fact which might affect their share price, as soon as possible.

Information published in France must be at least as complete as that published abroad – Paris analysts have often had to scrutinise the filings made by French companies with the US Securities and Exchange Commission (SEC) for their New York listings to obtain full information.

What could be one of the most important changes in the texts is a new procedure by which listed companies and financiers can obtain a prior written decision from the COB on an operation which they are planning.

This new procedure, already used in the US, was described by Mr Pfeiffer as the most innovative of the proposals made by his commission.

These written decisions will normally be published in the COB's monthly bulletin – though publication may be delayed until the operation in question is completed – and are expected to form the basis of a jurisprudence similar to that built up, for example, by the Takeover Panel in the UK.

Other measures included in the texts cover the independence of fund managers, manipulation of market prices and dealing by companies in their own shares.

Fuel costs hit Canadian airlines

By Robert Gibbens in Montreal

BOTH Canada's large airlines ran into strong turbulence in the first quarter, due to to rising fuel costs and a weak domestic economy.

Air Canada, the dominant carrier privatised over the past two years, incurred a net loss of C$13m (US$11m), or 18 cents a share, virtually unchanged from the 1989 quarter. Excluding interest and gains on asset sales, operating loss was $40m, against a loss of $28m a year earlier.

While operating revenues rose 12 per cent to $930m with growth in passenger traffic and maintenance contract revenues, operating expenses were up 13 per cent, reflecting a 24 per cent rise in fuel costs and a 10 per cent gain in wages.

Mr Pierre Jeanniot, Air Canada's president, forecast a difficult year ahead. The airline has sold a further small tranche of GPA Group shares, reducing its holding from 9.3 per cent to 9.1 per cent.

First-quarter passenger load factor averaged 68.6 per cent against 66.3 per cent and yield per revenue passenger mile was unchanged at 15.9 cents.

PWA, parent of Canadian International Air Lines, posted a loss of C$34.2m, or C$1.09 a share in the March quarter against a loss of C$19.3m, or 87 cents, as it struggled with problems from the takeover of Wardair last year.

Wardair's fleet has almost all been sold and big reductions made in CIAL manpower, but PWA is saddled with heavy debts and faces more erosion in market share.

Both airlines are trying to bolster their international routes, particularly in the Pacific area. Analysts believe the outlook for the fourth quarter is clouded by the soft North American economy and cuts in business flying.

Afcol, Amrel up despite fall in demand

By Philip Gawith in Johannesburg

ASSOCIATED Furniture (Afcol) and Amrel, two leading furniture and household goods suppliers in the South African Breweries group, showed improved profits in the year to March 31, despite a slowing in consumer demand and restrictive hire-purchase legislation.

Afcol lifted turnover 21 per cent to R701.4m (US$266m) with trading profit rising by a similar amount to R58.4m. A higher interest bill, however, meant attributable profit rose only 12 per cent, to R46.7m.

Earnings and dividends per share were both 12 per cent up at 190.8 cents and 95 cents respectively.

Amrel lifted turnover by 12 per cent to R849m. Pre-tax profit was 8 per cent up at R40.3m. Furniture sales remained buoyant, but appliance turnover fell dramatically and footwear and apparel sales fell rapidly in the second half.

Earnings per share were 2 per cent up at 245 cents and the dividend was increased 1 per cent to 82 cents per share.

LVMH reveals 20% rise in first quarter

By George Graham

LVMH, the French drinks and luxury goods group, has announced a 20 per cent increase in net profits in the first quarter of this year.

The group announced no figure for profits, but said its policy of covering exchange rate risks had significantly limited the impact of the weaker yen, which had reduced sales, particularly in its cognac and luggage divisions.

The yen fell in value by an average of 21 per cent in the first quarter, while the dollar and the currencies attached to it, including many of LVMH's significant Far Eastern customers, fell by 9 per cent.

Group first-quarter sales rose to FFr4.52bn ($819m), up 4 per cent from the previous year or 14 per cent at constant exchange rates.

Only the perfume and cosmetics division, including Parfums Christian Dior, showed a significant increase in sales, rising 10 per cent to FFr1.07bn.

Minebea climbs on strong sales

PRE-TAX profits of Minebea, the Japanese bearings and semiconductor group, rose 9.3 per cent to Y8.1bn ($53m) on sales up 5.2 per cent to Y89.9bn in the six months to end-September, writes Ian Rodger in Tokyo.

The company cited strong domestic demand as contributing to the growth. Net profit was Y4.6bn, up 18.4 per cent, thanks in part to a reduction in corporate taxes. For the full year, the company expects pre-tax profits to reach Y16.5bn, up 4.4 per cent.

Repsol slides

REPSOL the partially privatised Spanish energy conglomerate, reported net first-quarter income this year of Pta17.5bn ($170m), down slightly from last year's Pta17.9bn, writes Peter Bruce.

Due to the strength of the peseta net dollar income rose $10m to $162m.

Generali raises dividend as earnings rise 14.7%

By Haig Simonian in Milan

ASSICURAZIONI Generali, Italy's biggest insurer, raised net parent company earnings by 14.7 per cent to L390.2bn ($324.4m) last year from L340.1bn. Preliminary consolidated group profits rose by 11.7 per cent to L570bn after tax, from L510.5bn.

Generali is raising its dividend by 6.1 per cent to L350 a share from L330 and making a bonus issue of one new share for every 10.

Total group premiums at Generali, which last March bought a 95 per cent interest in the US-based Business Men's Assurance (BMA) company, were L13,467bn, up from L10.871bn. Consolidating BMA should add at least a further $400m to group premium income this year.

Parent company premium income rose by 10.2 per cent to L5,505.7bn, with life policies once again showing the strongest growth. Domestic life insurance premiums jumped by 20.5 per cent. Overall, life insurance accounted for L301.4bn of parent company net profits, with the remaining L88.8bn attributable to the non-life side.

The company's investment portfolio grew by almost 13 per cent to L14,284, while net investment income jumped 18.1 per cent to L1,089.4bn.

● Riunione Adriatica di Sicurta (RAS), Italy's second biggest private-sector insurer, which is majority-owned by the Allianz group, raised net profits to L136bn from L61bn in 1988. Premium income at RAS rose by 7 per cent to L5,396 at group level and by 14.4 per cent to L2.525 for the parent company.

Despite the profits leap, which stemmed from one-off capital gains, the company said underwriting performance had been unsatisfactory.

The company spent L145bn in taking a stake in the joint venture which Allianz established last year with the insurance activities of the Navigation Mixte group in France. That investment has given RAS 5 per cent of the new French venture, alongside the 45 per cent held by Allianz.

Following the recent decision by Allianz to merge its French insurance activities with Navigation Mixte, RAS will hold about 6 per cent of the new combined entity, alongside some 58.5 per cent held by Allianz.

Citicorp launches two funds

By Stephen Fidler, Euromarkets Correspondent

TWO investment funds totalling $500m, which will invest in US mortgage-backed securities, will be launched in Europe by Citicorp this week. Both are aimed at non-US institutional investors. They were marketed in Japan last week.

The first fund will invest in privately issued mortgage-backed securities without agency guarantees but with ratings of at least AA.

It will pay a semi-annual coupon of 80 basis points over London interbank offered rates.

The second will have a guaranteed semi-annual coupon of 62.5 basis points over Libor and will primarily invest in US agency securities, with AAA ratings. It will invest a minimum of 70 per cent of assets in agency securities, guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

The eight-year funds will be able to use derivative markets – such as swaps, caps or floors – to manage the interest rate or shift the duration of the portfolios.

Non-US institutions have shown a growing interest in US mortgage securities, but many are uncomfortable with their uncertain repayment which follows from the absolute right of US mortgage holders to prepay their fixed-rate mortgages without penalty.

More US banks face downgrading

By Alan Friedman in New York

STANDARD & Poor's, the US credit rating service, expects the slump in the real estate sector and related loan problems to lead to the downgrading of several US banking groups in the near future.

Mr Robert Swanton, a banking analyst at S & P, said continued illiquidity, especially in the East Coast real estate market, would combine with more stringent regulatory controls to cause a deterioration of commercial real estate loan portfolios.

Mr Swanton said banks in the Mid-Atlantic region (from New Jersey down to Virgina) would be the next area to be hit and cited the latest downgrade by S & P, announced last week, of MNC Financial, the Maryland bank whose rating was lowered to A-from A. Real estate loans account for 30 per cent of MNC's total loan book of $14bn.

Last week S & P downgraded the ratings of Bank of Boston, FLeet/Norstar and the Bank of New England, three north-eastern banks hit hard by the real estate recession.

Moody's Investor Service meanwhile downgraded Chemical Bank, also citing the real estate problem.

Mr John Reed, Citicorp chairman, said he expected Moody's to downgrade his bank's rating. S & P already moved two weeks ago to lower Citicorp's rating. The bank, largest US commercial real estate lender with a loan book of $12.6bn, also indicated that its non-performing real estate loans could rise this year by $500m to $600m from the current level of $1.3bn.

DnB vice president to quit in autumn

By Karen Fossli in Oslo

MR KRISTIAN RAMBJOER, the former chief executive of Den norske Creditbank (DnC) before it was merged with Bergen Bank to form Den norske Bank (DnB), is to step down by this autumn from his new position as executive vice president of DnB.

Mr Rambjoer's stay with DnC has been an eventful two-years. He was appointed DnC's chief in mid-1988 following an unprecedented shake-up of the bank during its 140-year history and disclosures of huge losses on loans, guarantees and securities trading for 1987.

Losses on loans and guarantees continued to plague the bank – NKr1.7bn ($266m) in 1987, NKr1.81bn in 1988 and NKr1.86bn in 1989 – though it strongly improved its operating profits in 1989 to NKr1.71bn with Mr Rambjoer at the helm.

Net losses in 1989 were cut to NKr233m from NKr875m in 1988 and NKr1.44 bn in 1987.

He succeeded Mr Harald Arnkvaern, who served as an interim chief executive, after Mr Leif Terje Loddesoel resigned in 1988 over the controversial affair which had also brought down the bank's entire board.

Known affectionately as "Rambo" in Oslo's banking community, Mr Rambjoer was brought into the bank essentially as a clean-up man. He is credited with a sweeping, successful reorganisation of DnC in which he was aided by four hand-picked deputy managing directors.

Within four months he and his team cut DnC's staff by 1,200 and by 1989 had reduced the bank's costs by NKr400m. He also set a clear course for the bank, improving its efficiency and enabling it to raise fresh capital in 1988.

In October 1989 Mr Rambjoer announced that DnC was to merge with Bergen Bank, thereby completing the strategy which he had designed to put the bank back on track. April 14 marked the completion of the first phase of the merger and prompted Mr Rambjoer to consider his options.

GRANVILLE
SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
9884	Ass. Brit. Ind. Ord	305	-6	10.3	3.4	8.2
600	Armitage and Rhodes	24	0			
108598	Bardon Group (SE)	130xd	+1	4.3	3.1	13.4
16528	Bardon Group Cv. Pref. (SE)	96xd	-1	6.7	7.0	-
4778	Bray Technologies	79	-1	5.9	7.5	7.0
	Bremhill Conv Pref	82	0	11.0	13.4	-
1182	CCL Group Ordinary	311	0	14.7	4.7	3.8
2063	CCL Group 11% Conv Pref	165	0	14.7	8.9	-
16740	Carbo Plc (SE)	210xd	0	7.6	3.6	12.4
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
-	Magnet Gp Non Voting A Cnv*	0.125	0	-	-	-
-	Magnet Gp Non Voting B Cnv*	0.125	0	-	-	-
6411	Isis Group	83	-2	8.0	9.6	4.7
24262	Jackson Group (SE)	113	+5	3.6	3.1	13.1
25732	Multihouse N.V.(AmstSE)	390	+20	-	-	-
1377	Robert Jenkins	135	0	10.0	7.4	4.9
17040	Scruttons	355	-5	18.7	4.0	9.4
-	Unistrut Europe Conv Pref	165	0	9.3	5.6	-
4125	Veterinary Drug Co. PLC	250	-6	22.0	8.8	9.4
7885	W. S. Yeates	352	+7	16.2	4.6	29.3

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BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Nykredit Mortgage Bank	15½
Allied Trust Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Allied Irish Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc	16½	● Smith & Williams Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank Plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bnk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. N. East	15	Mount Banking	15		
Co-operative Bank	*16	Nat. Bk. of Kuwait	15		
		NatWestminster	15		

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WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
Closing prices May 11

Quotations in cents unless marked $.

[illegible]

MONTREAL
Closing prices May 11

[illegible]

Total Sales 7,086,887 shares.

INDICES

NEW YORK DOW JONES

	May 11	May 10	May 9	May 8	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2801.58	2738.51	2732.88	2733.56	2810.15 (2/1)	2543.24 (30/1)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	(u)	89.28	88.97	89.16	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1177.45	1160.74	1161.45	1168.01	1201.18 (2/1)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.99	212.59	213.78	212.09	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

ϕDay's High 2810.58 (2755.63) Low 2743.02 (2716.44)

STANDARD AND POOR'S

	May 11	May 10	May 9	May 8	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	352.00	343.82	342.86	342.01	359.69 (2/1)	322.98 (30/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	409.45	400.21	398.86	398.02	411.20 (2/1)	371.92 (30/1)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	28.70	27.94	27.88	27.88	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	192.24	188.14	187.49	187.11	198.00 (2/1)	178.43 (30/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	352.50	348.92	348.53	347.58	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	436.10	433.20	431.34	431.84	460.90 (3/1)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	May 4	Apr 27	Apr 20	year ago (approx.)
Dow Industrial Div. Yield	4.05	4.15	4.07	3.51
	May 9	**May 2**	**Apr 25**	**year ago (approx.)**
S & P Industrial div. yield	3.07	3.13	3.13	3.17
S & P Ind. P/E ratio	15.20	14.85	14.72	12.82

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Varity Corp	4,961,000	3⅛	+ ⅛
Pfizer Grth	3,946,800	13⅛	—
Philip Morris	3,659,000	44⅛	+ ⅞
Fannie Mae	2,790,600	38⅜	+ 2
Bristol Myers	2,667,200	60⅛	+ ⅞
Gen Electric	2,575,600	68⅞	+ ⅞
IBM	2,547,300	114	+ 1⅜
Citicorp	2,457,700	23⅞	+ 1⅛
McDonalds	2,129,700	32⅞	+ ⅞
Texas Utilities	1,980,000	36⅞	+ ⅞

TRADING ACTIVITY

† Volume Millions	May 11	May 10	May 9
New York	236.035	158.460	153.795
Amex	13.409	12.701	13.377
NASDAQ	(u)	142.487	146.626
Issues Traded	(u)	1,962	1,983
Rises	(u)	844	755
Falls	(u)	611	723
Unchanged	(u)	507	505
New Highs	(u)	47	36
New Lows	(u)	52	57

CANADA TORONTO

	May 11	May 10	May 9	May 8	1990 HIGH	1990 LOW
Metals & Minerals	3138.00	3084.80	3032.50	3011.50	3453.05 (4/1)	2850.80 (23/4)
Composite	3535.00	3486.50	3464.10	3438.60	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1832.08	1806.57	1792.72	1783.05	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	May 11	May 10	May 9	May 8	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1484.6	1474.5	1477.8	1476.9	1713.7 (2/1)	1434.5 (30/4)
All Mining (1/1/80)	748.3	731.1	729.4	738.4	860.6 (5/1)	715.3 (1/5)
AUSTRIA						
Credit Aktien (30/12/84)	606.22	608.57	611.85	619.98	702.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6088.91	6085.87	6100.31	6084.38	6699.43 (12/1)	5968.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	(u)	(u)	359.97	360.13	398.47 (28/3)	352.96 (25/4)
FINLAND						
Unitas General (1975)	562.2	563.9	562.4	563.6	677.3 (23/1)	562.2 (11/5)
FRANCE						
CAC General (31/12/82)	554.63	554.87	554.83	(u)	557.60 (7/5)	482.94 (26/2)
CAC 40 (31/12/87)	2091.85	2104.56	2103.49	(u)	2129.32 (28/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	797.38	797.80	803.34	805.03	838.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	2311.7	2313.3	2332.6	2340.2	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1873.03	1893.42	1896.58	1899.28	1968.56 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2944.46	2886.48	2942.27	2903.58	3067.67 (19/4)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1688.94	1682.48	1604.36	1608.58	2095.18 (22/2)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	708.99	702.16	701.59	702.23	713.86 (17/4)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	31512.14	30989.26	30945.61	30970.58	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2348.97	2312.80	2308.79	2303.60	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	3819.82	3756.15	3784.88	3671.88	4286.68 (9/2)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	595.26	582.20	(u)	584.73	622.28 (20/2)	518.83 (2/5)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	254.8	253.8	254.8	256.7	269.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	192.5	191.8	192.7	194.2	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (2/1/83)	847.25	828.87	807.75	797.76	847.25 (11/5)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	976.41	973.42	990.64	985.54	1160.70 (22/1)	956.57 (30/4)
SINGAPORE						
SES All-Singapore (2/4/75)	423.64	420.96	(u)	418.35	483.34 (8/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1732.0	1706.0	1749.0	1807.0	2230.8 (16/1)	1692.8 (25/4)
JSE Industrial (28/9/78)	2929.0	2938.0	2931.0	2927.0	3213.0 (6/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	782.27	771.76	793.36	796.54	928.82 (4/1)	688.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	282.21	281.24	279.99	279.13	302.85 (4/1)	248.17 (2/4)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1219.6	1199.8	1183.3	1171.7	1317.88 (22/1)	1127.28 (3/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	782.1	773.4	761.8	754.7	787.2 (11/1)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	8417.88	8426.41	8922.67	8948.49	12495.34 (10/2)	8417.88 (11/5)
THAILAND						
Bangkok SET (30/4/75)	877.71	870.74	875.15	(u)	918.67 (5/2)	768.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	498.8	498.6	496.5	571.8 (4/1)	468.3 (2/4)

**Saturday May 5: Taiwan Weighted Price: 8943.39 Korea Comp Ex. 782.33

‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks
Friday May 11 1990

	Stocks Traded	Closing Prices	Change on day
Nippon Mining	49.9m	1,090	+80
NKK	18.6m	643	+7
Isuzu Motors	17.2m	1,140	+50
Sanyo Electric	18.1m	983	+29
Nippon Steel	12.8m	611	+6
Mitsui Eng&Shp	10.1m	960	+6
Osaka Gas	9.6m	774	+14
Honshu Paper	9.0m	1,930	+60
Fuji Electric	7.9m	1,000	+32
Kawasaki Steel	7.8m	610	+4

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H

[illegible]

Brown Shipley & Co Ltd—Contd.

[illegible]

Brycourt Unit Tst Mngmt Ltd (1400)F

[illegible]

Buckmaster Mangmt Co Ltd (1200)H

[illegible]

Burrage Unit Tst Mangmt Ltd (0905)F

[illegible]

CCF Foster Braithwaite UT Mngt (1100)F

[illegible]

CCL Unit Trusts Ltd (1400)F

[illegible]

CIBC Unit Tst Managers plc (1200)H

[illegible]

CIS Unit Managers Ltd (1000)F

[illegible]

Abtrust Management Ltd (1200)H

[illegible]

GUIDE TO UNIT TRUST PRICING

[illegible]

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INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	98.5	103.7	–	47150
Managed Growth	136.6	143.8	–	47151
Managed Opportunity	139.5	146.9	–	47152
NFMC Target Financial	94.7	99 70	–	47153
Pension Funds				
Managed Cautionary	104.4	109.9	–	47154
Managed Growth	140.7	148.2	–	47155
Managed Opportunity	141.4	148 9	–	47156
NFMC Target Mngd Pen	1488.4	1566.8	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	216.4	227.8	–	43122
Managed Prospect Fund	181.6	191.2	–	43123
Pens Managed	283 0	297.9	–	43128
Pens UK Equity	327.2	344.5	–	43129
Pens Overseas Equity	401.2	422.4	–	43130
Pens Property	146.9	154.7	–	43131
Pens Fixed Interest	164.9	173.6	–	43132
Pens Index Linked	144.2	151.8	–	43133
Pens Deposit	195.5	205 8	–	43134
Harvester & P.R.P.				
UK Equity	143.1	150.7	–	43135
Overseas Equity	143.7	151.3	–	43136
Fixed Interest	112.7	118.7	–	43137
Property	122.9	128.8	–	43138
Index Linked	131.1	138.0	–	43139
Deposit	135 7	142.9	–	43140
Managed	142.6	150.2	–	43141
With Profits	138.2	145 6	–	43142

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	330.8	348.3	–	43163
UK Equity	411.9	433.6	–	43164
Overseas Eq.	354.6	373.3	–	43165
American	264.2	278.2	–	43166
Far East	376.2	396.0	–	43167
Property	215.9	226.7	–	43168
Fixed Int	211.3	222.5	–	43169
Indexed Gilt	137.7	145.0	–	43170

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
UK Managed Initial		112.4	–	43432
Property Initial		167.5	–	43433
Money Initial		80.3	–	43434
Special Market Initial		132.6	–	43435
Japan Equity Initial		96.5	–	46762
North American Initial		82.1	–	43437
Pacific Initial		77 9	–	43438
Technology Initial		92.0	–	43439
Nat Resources Initial		54.7	–	43440
European Initial		111.6	–	43442
Residential Prop Init		99.4	–	43443
Swiss Equities Initial		38.6	–	43444
Hong Kong Initial		49.2	–	43445
UK High Inc Eq Init		64.1	–	43446
Int Fixed Interest Init		48.7	–	46408
Int Managed Init		56 4	–	46409
HIP Managed Init		112.5	–	46752
HIP Managed B Initial		97.7	–	41927
Broker Funds				
High Performance	74 7	78.7	–	43448
Towerhill Mngd Fd Acc	48.6	51.2	–	43447
YRA Executive Fd	93 4	98.5	–	43449
£ Global Growth Acc	130.5	137.6	–	47160
£ High Income Mony Acc	111.4	117.7	–	47161
IM Balanced		54 9	–	47162
H.F. Speculator Fd		151.2	–	43451
PEP Acorn II		119.5	–	46484
PEP Cautionary		80.1	–	47163
AAFS Int Man Fund		116.5	–	46551
Andrews-Green Inv Pen		98.0	–	47914
Individual Pension Funds				
UK Equity Acc	213.3	225.0	–	43454
UK Fixed Interest Acc	173 7	183.3	–	43455
Intl Equities Acc	247.4	261.0	–	43456
UK Managed Acc	177.2	186.9	–	43457
Property Acc	211.5	223.2	–	43458
Money Acc	139.7	147.4	–	43459
Special Market Acc	266 1	280.8	–	43460
Japan Equity Acc	195.9	206.7	–	46761
North American Acc	128.4	135.5	–	43462
Pacific Acc	190.6	201.1	–	43463

Royal Heritage Life Assurance Ltd – Contd.

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

MANAGEMENT SERVICES

Towry Law & Co – Contd.

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6AF 01-836 4321

OFFSHORE AND OVERSEAS

Capital House Fund Mgrs – Contd.

Gartmore Fund Managers International Ltd
PO Box 278, 45 La Motte St., Jersey 0534 27535

GUERNSEY (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

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SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Japanese borrowers boost Swiss franc

THE SWISS franc came under the spotlight last week after a period of relative quiet. Suddenly the market decided the attractions of the currency had been overlooked for too long. EuroSwiss interest rates looked attractive when compared with equivalent D-Mark, dollar and Japanese yen rates, but there was another reason for the franc's advance; demand from Japanese companies.

For several years low Swiss interest rates and the high value of shares in Tokyo attracted Japanese companies to borrow by issuing Swiss franc convertable bonds. Companies could borrow at lower rates than in yen denominated paper, and with equity prices rising it was assumed that the lender would be happy to take the option of Japanese shares when the bond matured, making the cost to the borrower very low.

Many of these issues are now maturing and the situation has changed significantly, as Swiss interest rates have climbed and Japanese share prices have fallen. Mr Roger Portnoy, of Thomson Financial Networks, believes that about SFr30bn is in the process of being redeemed, and many of these deals are not being converted into shares, because of the fall in value of Japanese shares.

The borrower must therefore buy Swiss francs to cover these obligations. Mr Portnoy suggests that in some cases the lender might not want the shares, and in others the Japanese borrower might prefer to pay the money rather than hand over shares that could be undervalued at present. In either case the result is increased demand for the Swiss franc.

UK clearing bank base lending rate 15 per cent from October 5

£ IN NEW YORK

May.11	Close	Previous Close
£ Spot	1.6785-1.6795	1.6795-1.6805
1 month	0.95-0.94pm	0.95-0.94pm
3 months	2.81-2.79pm	2.75-2.73pm
12 months	9.75-9.65pm	9.50-9.40pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

May.11	Bank of England Index	Morgan Guaranty Changes %
Sterling	87.1	-24.3
U.S Dollar	66.8	-10.9
Canadian Dollar	102.9	+1.5
Austrian Schilling	110.4	+12.1
Belgian Franc	111.7	-2.0
Danish Krone	111.4	+5.7
Deutsche Mark	119.9	+25.4
Swiss Franc	134.5	+22.9
Guilder	115.8	+17.2
French Franc	105.0	-11.7
Lira	101.9	-17.8
Yen	120.1	+45.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) [illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6815	1.6721	1.6538	1.6280	1.5858

STERLING INDEX

CURRENCY RATES

OTHER CURRENCIES

CHICAGO

POUND SPOT- FORWARD AGAINST THE POUND

May.11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6705 - 1.6855	1.6810 - 1.6820	0.95-0.93cpm	6.71	2.79-2.76pm	6.60
Canada	1.9680 - 1.9820	1.9810 - 1.9820	0.29-0.20cpm	1.49	0.92-0.79pm	1.74
Netherlands	3.07½ - 3.08½	3.07½ - 3.08½	1¾-1⅝cpm	6.58	5-4⅞pm	6.42
Belgium	56.70 - 57.00	56.80 - 56.90	30-18cpm	5.07	84-66pm	5.28
Denmark	10.45 - 10.49½	10.48½ - 10.49½	4¼-3½orepm	4.43	12¾-10¾pm	4.39
Ireland	1.0195 - 1.0290	1.0230 - 1.0240	0.37-0.32ppm	4.04	0.95-0.85pm	3.52
W. Germany	2.73½ - 2.74½	2.74 - 2.74½	1½-1½pfpm	6.84	4½-4⅜pm	6.84
Portugal	243.25 - 244.60	243.25 - 244.25	4-14cdis	-0.44	36-63dis	-0.81
Spain	172.20 - 173.00	172.55 - 172.85	6-parcpm	0.21	32-22pm	0.31
Italy	2017½ - 2024½	2022½ - 2023½	5-3½lirepm	2.52	16½-13½pm	2.99
Norway	10.69¾ - 10.73½	10.72¼ - 10.73¼	3¾-2½orepm	3.29	9¾-8½pm	3.38
France	9.23¼ - 9.27½	9.26½ - 9.27½	4¼-4cpm	5.26	12½-12pm	5.29
Sweden	10.05½ - 10.09¾	10.08½ - 10.09½	2¼-1⅞orepm	2.46	6¼-5pm	2.21
Japan	256¼ - 257¼	256¼ - 257¼	1¾-1⅝ypm	7.87	5-4⅞pm	7.68
Austria	19.26 - 19.31	19.27 - 19.29	10¾-10¼gropm	6.54	30¾-28¾pm	6.20
Switzerland	2.33¾ - 2.35	2.34 - 2.35	1¼-1⅛cpm	6.09	3¾-3½pm	6.10
ECU	1.3480 - 1.3510	1.3495 - 1.3505	0.55-0.52cpm	4.76	1.61-1.56pm	4.70

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.38-5.33cpm 12 month 9.62-9.52cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May.11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6705 - 1.6855	1.6810 - 1.6820	0.95-0.93cpm	6.71	2.79-2.76pm	6.60
Ireland†	1.6355 - 1.6425	1.6400 - 1.6410	0.42-0.37ppm	2.89	1.25-1.15pm	2.93
Canada	1.1720 - 1.1795	1.1780 - 1.1790	0.50-0.53cdis	-5.26	1.43-1.48dis	-4.96
Netherlands	1.8270 - 1.8410	1.8325 - 1.8335	0.02-0.04cdis	-0.20	0.04-0.07dis	-0.12
Belgium	33.75 - 33.95	33.75 - 33.85	2.00-8.00cdis	-1.77	7.00-17.00dis	-1.42
Denmark	6.23½ - 6.24	6.23½ - 6.24	1.00-1.50oredis	-2.40	2.80-3.90dis	-2.14
W. Germany	1.6255 - 1.6375	1.6300 - 1.6310	0.06-0.04pfpm	0.37	0.12-0.09pm	0.26

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 11 1990						THURSDAY MAY 10 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	Local Currency Index	% change local currency since Dec.29 '89	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (81)	132.78	-12.3	117.07	115.91	-9.0	5.98	131.12	115.96	115.12	158.31	125.85	139.10
Austria (19)	259.22	+42.3	228.56	219.79	+37.4	1.21	258.20	228.34	220.07	285.63	193.15	123.54
Belgium (61)	152.09	-1.7	134.10	128.78	-6.6	4.60	151.03	133.56	128.45	160.02	132.11	132.92
Canada (120)	136.19	-10.5	120.08	116.22	-9.0	3.43	135.91	120.19	114.65	153.61	130.37	136.51
Denmark (34)	250.35	+3.4	220.73	212.38	-2.0	1.56	249.45	220.60	212.38	260.82	236.69	180.60
Finland (26)	134.16	+0.6	118.29	109.43	-3.2	2.50	133.44	118.01	109.35	152.29	129.99	150.08
France (125)	168.38	+7.9	148.46	145.60	+2.8	2.82	168.83	149.30	146.25	168.85	141.69	117.86
West Germany (93)	137.04	+10.8	120.83	116.16	+6.8	1.90	136.35	120.57	116.07	137.71	122.05	83.47
Hong Kong (48)	123.07	+5.1	108.52	123.09	+4.9	5.05	123.94	109.60	123.97	126.90	112.24	139.34
Ireland (17)	179.51	-1.1	158.28	154.18	-6.4	2.79	180.14	159.31	155.01	198.57	172.72	145.46
Italy (96)	103.28	+4.9	91.06	92.81	-0.4	2.55	103.28	91.33	93.00	103.73	91.85	78.94
Japan (454)	149.12	-24.5	131.48	143.89	-19.8	0.57	142.76	126.25	141.64	197.28	124.40	187.86
Malaysia (35)	220.03	-3.9	194.01	228.30	-4.1	2.36	217.93	192.72	226.19	245.32	204.15	181.84
Mexico (13)	443.06	+38.1	390.65	1367.26	+42.8	0.38	439.46	388.63	1352.09	443.06	324.53	178.40
Netherland (43)	140.41	-2.4	123.80	117.46	-6.4	4.80	139.23	123.12	117.02	145.66	130.43	116.62
New Zealand (17)	61.56	-14.6	54.28	57.11	-11.4	7.69	61.63	54.50	56.94	75.38	59.57	71.76
Norway (23)	244.23	+22.2	215.34	211.50	+18.2	1.47	238.53	210.94	207.53	245.90	202.34	184.79
Singapore (25)	196.71	+11.0	173.45	167.71	+8.1	1.80	194.37	171.89	166.81	199.38	179.70	157.32
South Africa (60)	190.47	-3.1	167.94	164.23	+8.0	3.60	189.46	167.54	166.65	251.39	173.80	137.45
Spain (42)	162.16	-0.6	142.97	126.22	-6.6	4.21	161.34	142.68	125.84	165.19	132.84	152.65
Sweden (35)	201.92	+5.1	178.03	179.35	+1.9	2.25	199.47	176.40	177.77	206.95	173.89	156.78
Switzerland (66)	102.05	+8.5	89.98	88.26	-1.9	2.34	100.21	88.62	86.70	102.05	88.75	71.80
United Kingdom (306)	148.09	-6.7	130.57	130.57	-10.5	5.07	146.49	129.55	129.55	164.31	139.87	146.91
USA (537)	142.18	-0.6	125.36	142.18	-0.6	3.41	138.97	122.90	138.97	145.40	130.61	127.76
Europe (986)	144.07	+1.2	127.03	123.88	-3.5	3.61	143.08	126.53	123.39	146.66	135.57	118.23
Nordic (118)	198.31	+5.8	174.85	165.51	+1.6	1.90	196.34	173.63	164.46	201.89	185.01	153.94
Pacific Basin (680)	147.52	-23.4	130.07	141.87	-18.9	0.89	141.60	125.22	139.78	192.75	124.63	183.56
Euro - Pacific (1646)	146.50	-15.1	129.17	135.03	-13.6	1.97	142.57	126.08	133.83	174.18	130.35	157.44
North America (657)	141.72	-1.2	124.96	140.47	-1.1	3.41	138.69	122.65	137.37	145.78	131.02	128.21
Europe Ex. UK (680)	139.49	+6.4	122.99	119.11	+1.3	2.77	138.84	122.78	118.91	139.49	124.81	100.47
Pacific Ex. Japan (206)	127.73	-5.3	112.62	115.68	-3.5	5.28	127.03	112.34	115.43	139.32	122.53	134.24
World Ex. US (1839)	146.75	-14.8	129.39	135.03	-13.2	2.04	142.97	126.43	133.88	173.77	131.30	158.53
World Ex. UK (2070)	143.63	-10.8	126.64	138.02	-9.1	2.24	139.89	123.71	135.93	162.00	130.80	145.03
World Ex. So. Af. (2316)	143.73	-10.5	126.73	137.07	-9.4	2.49	140.16	123.95	135.06	161.84	131.95	145.23
World Ex. Japan (1922)	142.80	-0.5	125.91	134.04	-2.0	3.56	140.67	124.40	132.20	145.52	134.62	124.90
The World Index (2376)	144.01	-10.4	126.98	137.26	-9.3	2.50	140.46	124.21	135.28	162.05	132.25	145.18

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Addition: Ciba-Geigy Registered (Switzerland) (10/5). Name change: Greyhound Corporation to Greyhound Dial Corporation (10/5).

CROSSWORD

No.7,237 Set by DANTE

ACROSS

1 Plain girl goes to dance (6)
4 Where in Africa one backs the law to some degree (6)
8 Fit to work like a horse (7)
9 Stays in different sectors (7)
11 Business advertisement on TV (10)
12 Turns and leaves (4)
13 Speeds with which notes are produced (5)
14 Time soon modifies feelings (8)
16 Motherly resolution to alter man (8)
18 Drinking bender (5)
20 He has a quiet summer in France (4)
21 Incredible doctrine of a bygone age (4,6)
23 Unpaid companion in a biblical city (7)
24 It's a fixed sort of charge (7)
25 Cramped northern shaft (6)
26 An academic is killed while hunting (6)

DOWN

1 Philosopher who gets on with soldiers (5)
2 A short dress mother, to say the least (7)
3 A declaration of treason is (9)
5 As you can see, it forms a ring (5)
6 A ship, for example, with first-rate missile (7)
7 Having private information? No, we think otherwise (2,3,4)
10 One needs it for toast (4-5)
13 Shopkeeper and master of disguises (9)
15 In the drink company chairman's position (9)
17 He makes one cross at times (7)
19 It may go up - everybody's in favour (7)
21 Heavenly cartoon character (5)
22 Drains topless pitchers (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday May 26.

JOTTER PAD

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

AMERICANS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,122.2	ANZ SA1	226	....	8.8	8.1	Feb July	1698
2,462.8	Abbey National 10p	188	−2.1	4.0	12.3	Apr Oct	5411
1,210.3	Allied Irish Ord.	218	−1.4	4.3	27.11	Dec July	1354
1,252.4	Algemene Fl 10	£124½	−1.0	7.3	3.5	Aug May	1567
29.9	Anglo Irish	75	−2.6	5.9	30.4	Jan Jul	1355
130.7	Ansbacher (H.) 1p	70	2.9	4.8	12.3	April	1624
1,216.6	Bancaire Cie Fr100	£71	3.2	2.0	9.5	May Mar	2202
4,428.1	Banco Bilbao Viz	£18½	2.8	4.6	9.12	Dec June	–
1,221.1	Banco de Santander	£28½	1.3	3.9	31.10	Apr Oct	–
768.0	Bank Ireland Ir£1	230	....	5.1	27.11	July Dec	1360
134.4	Bank Leumi	£19½	....	–	–	–	1740
24.3	Bank Leumi (U.K.)	345	....	5.2	26.2	Mar Sep	1740
814.5	Bank Scotland	108	0.9	5.6	30.4	Nov Jul	1742
88.0	Do. 9¼pc Irrd Pf.	84	2.3	14.0	30.4	May Nov	1462
12.5	Bank of Wales	39	−7.1	9.6	30.4	Nov Jun	1743
5,978.4	Barclays £1	330	−0.6	6.9	12.3	Oct May	1754
7.5	Benchmark 20p	14	−6.7	15.5	9.4	May Oct	1802
50.1	Brown Shipley £1	314	−1.6	4.5	27.11	Jan Aug	1983
69.1	Cater Allen £1	360	....	8.6	27.11	Jan. July	2081
27.9	Chancery	137	....	7.8	27.11	Jan July	2102
499.5	Commerzbk DM10	£22¼	9.3	3.0	27.5	May	1046
24,999.3	Dai Ichi KBk Y50	892	1.1	0.3	4.7	June	3221
8,747.8	Deutsche Bk DM50	£288	−1.2	1.8	11.5	May	2345
212.5	Espirito Santo	£19¾	−3.0	2.3	–	June	5187
312.3	First Nat. Fin. 10p	198	....	8.8	15.1	Mar Aug	2571
47.5	FNFC 6.3pc Cv Pf	98	−2.0	8.6	27.12	July	2570
21,227.2	Fuji Bank Y50	£10¾	4.8	0.3	4.7	Dec June	1084
102.1	Gerrard & National	268	....	9.2	30.10	June Dec.	2686
90.7	Guinness Mahon 10p	140	−2.8	2.0	27.12	Jul Feb	5074

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES – Contd

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names. α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially listed.
‡ Price at time of suspension
§ Not comparable
¶ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. ‡ Minimum tender price

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights, xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1.. γ	816	..
Finlay Pkg. 5p . γ	55	..
Holt (Jos) 25p. γ	1310	

IRISH

Exp. 8½% Ln 1991	£98	1.0
9pc Cap Ln 1996	£94¾	0.8
Fin 13% 97/02	£112	0.4
Arnotts	400	−8.0
Carrol (P.J.) ... γ	158	−1.9
Hall (R & H)	175	−1.7
Helton Hldgs ..γ	72	−4.0
IRG	280	...
United Drug ..	163	−1.2

TRADITIONAL OPTIONS
3-month call rates

Industrials

	p
Allied-Lyons	39
Amstrad	8½
Astec (BSR)	5½
BAT	83
BOC Grp.	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons	40
Comm Union	40
Courtaulds	24
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	90
GEC	18
Glaxo	56
Grand Met.	45
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds.	52
Marks & Spencer	17
Midland Bk.	27
Nat West Bk	29
P & O Dfd	50
Polly Peck	37
Racal Elect.	19
RHM	35
Rank Org Ord.	68
Reed Intnl.	33
STC	28
Sears	9½
SmKL Beecham A	46
TI	38
TSB	11
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	54
Vickers	18
Wellcome	60

Property

Brit Land	32
Control Secs.	5
Land Securities	44
MEPC	44
Mountleigh	14

Oils

Aviva Petlm.	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petlm.	12
Gaelic Res.	4½
Premier	10
Shell	37
Tuskar Res.	10
[illegible]	31

Mines

Lonrho	28
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices May 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	20¼	AAR	.48	2.2	13	134	22	21½	21¾	+ ¼
9¼	8	ACM n	1.01	12.		729	8⅞	8¾	8⅞	+ ⅛
11⅝	9⅞	ACMIn	1.26	13.		1090	10⅛	9⅞	9⅞	– ⅛
9⅞	7¼	ACM M	o1.01	13.		465	7¾	7½	7⅝	+ ⅛
12⅛	11⅛	ACMMM				139	11¼	11⅛	11¼	
11½	9⅜	ACM Sc	1.26	13.		1683	9¾	9⅝	9⅝	– ⅛
9½	8⅛	ACMSp	1.01	12.		626	8¾	8¼	8¼	– ⅛
22¾	14¾	AL Lab	.16	.7	19	103	21⅞	21½	21½	– ¼
4⅛	3	AMCA	.20g	6.4	9	5	3⅛	3⅛	3⅛	
6⅛	2⅛	AM Intl			6	331	2⅝	2¼	2⅝	
23⅛	11⅛	AM In pf	2	18.		45	11¼	11⅛	11¼	
107¼	52½	AMR			12	6127	65¼	63⅞	65	+1⅛
24⅞	22⅞	ANR pf	2.12	9.3		1	22¾	d22¾	22¾	+ ¼
4⅛	3	ARX				116	3½	3⅜	3½	
72¼	39	ASA	3a	6.0		685	50½	49¼	49⅞	– ½
70⅞	54¼	AbtLab	1.68	2.4	18	6869	u70⅞	70⅛	70⅞	+1¼
35¼	27⅞	AbtLb wi				36	u35¼	35½	35⅝	+ ⅜
17⅛	11¼	Abitibi g	.50			3	12¼	12¼	12¼	– ⅛
13	8¼	AcmeC	.40	4.2	11	115	9⅝	9½	9⅝	+ ⅛
9¼	7⅜	AcmeE	.32	3.7	11	39	8⅝	8⅝	8⅝	
39½	28⅛	Acuson			23	682	u39	37⅞	39	+1⅛
16½	13½	AdaEx	2.08e	13.		399	16	15⅞	16	+ ⅛
15⅞	8½	Adobe				45	11⅝	11½	11½	– ⅛
20¼	17¼	Adob pf	1.84	9.8		8	19	18¾	18¾	– ¼
21⅞	19⅞	Adob pf	2.40	12.		42	20½	20½	20½	
10½	6⅞	AMD			20	10974	9½	9	9½	+ ⅜
39	28¼	AMD pf	3	10.		311	29½	28¾	28¾	– ¼
10⅛	4⅛	Advest	.16	3.7	55	219	4½	4¼	4⅜	– ⅛
62½	45⅛	AecoLf	2.76	5.3	9	6939	51¾	50⅞	51¾	+1
14	9¼	AffPb	.24	2.4		1342	10	9⅞	9⅞	
25	16⅛	Ahmans	.88	4.7	9	7089	19⅞	18⅝	18⅝	+ ⅜
3⅝	1⅞	Aileen				10	2½	2⅛	2⅝	
[illegible]										

Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]										
		– X – Y – Z –								
50⅛	40	Xerox	3	6.1	6	2618	49	48½	49	+ ⅛
47⅞	45⅛	Xerox pf				50	47⅞	47⅞	47⅞	+ ⅛
38⅛	21¼	XTRA	.48	2.2		154	21⅞	21⅛	21⅛	
25	18¼	XTRA pf1.94		10.		45	19⅛	18	19⅛	+ ⅛
4⅛	2⅛	Zapata				581	2⅞	2⅞	2⅞	
12⅛	6⅞	Zemex				5	7⅞	7⅞	7⅞	
21⅛	7⅞	ZenithE				750	9⅛	9⅛	9⅛	+ ⅛
21⅛	13½	ZenNtl	.84	5.6	9	65	15	14⅞	15	+ ⅛
9⅛	6⅛	Zerlk	.90	14.		357	6⅛	6⅞	6⅛	+ ⅛
18⅛	12⅞	Zero s	.40	2.8	13	472	14⅛	13⅞	14	+ ⅛
44⅞	27⅞	Zurnin	.76	1.7	21	985	u45⅛	44½	45⅛	+ ⅛
12⅛	10⅛	Zweig	1.21e	11.		567	11½	11⅛	11½	
10	8⅛	ZweigTl	.96	10.		1544	9⅛	9⅛	9⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices May 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
PresdA	.10		18	6¼	6¼	6¼	
PreCm s			174	4	3¾	4	
ProMed	.42	12	22	6	6	6	
[illegible]							

NASDAQ NATIONAL MARKET

4pm prices May 11

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
[illegible]							
Worthg	.56	18	804	22⅛	21½	22⅛	+1⅛
Wyman	.80		351	13⅛	13¼	13⅛	+ ⅛
			– X – Y – Z –				
XL Dta		5	54	9⅞	9⅛	9⅛	− ⅛
XOMA			3674	20¼	19½	20	+ ⅛
Xicor			2195	2⅛	2⅛	2 5-16	+1-16
YanEnS	1.14e	11	24	19	18½	19	
YelowF	.76	54	2285	30½	29¾	30⅛	− ⅛
YorkRs		21	4572	u14⅛	13⅞	14	+ ⅞
ZionUt	1.44	8	48	28½	28	28⅛	

The Business Column

Too much informality can be dangerous

Corporate strategic planning was once seen as a prime cause of a company's competitiveness, but went seriously out of fashion in the early 1980s. By the end of the decade there was statistical evidence that companies without central planners were providing higher returns to shareholders than those which still employed them, according to a research study by accountants Deloitte Haskins & Sells.

Yet the anti-planning fashion may have gone too far. Many companies are now discovering this as they grapple for some sense of direction to guide them through the uncharted waters of fast-moving international competition. Such befuddlement has not only struck companies with collections of diverse divisions, but also plenty of relative specialists.

The "dump planning" movement, which was fostered by the unpredictabilities which hit business a decade ago, was given especial force by the very public way in which, in the early 1980s, General Electric of America disbanded much of its central strategic planning effort.

What many emulators failed to notice amid all the media hype was that GE had actually been much more constructive than merely hacking hordes of planners. It had: decentralised much of its head office planning to its divisions; transferred planning responsibility from a staff of specialists to line managers; distinguished much more clearly between strategy (the setting of broad lines of direction) and planning (of detailed actions); shifted from a bureaucratic annual cycle of "plan and review everything" to planning-by-need and reviews-by-exception; and built a slim new central strategy department, staffed mainly by former management consultants recruited from outside.

Other multinationals, such as Britain's ICI and BP, have taken broadly similar steps, replacing their planning bureaucracies with a streamlined strategy effort. The result has been something of a convergence between the sort of strategy mechanisms operated by the giants and those employed by many smaller fry: from mini-conglomerates which used to decry planning but have now built small strategy departments, to medium-sized specialist companies whose chief executives and divisional managers have become their own strategists.

The strategic baby which had been thrown out with the planning bathwater has been rescued, in other words. But not always appropriately. Many managers still believe that there is some uniformly "correct" way of formulating strategy.

As Michael Goold of the Ashridge Strategic Management Centre makes clear in a new research paper*, companies ought to decide quite consciously what degree of formality they need in their strategic control processes. Yet most tend to plump for informality almost by default.

The requisite degree of formality depends on a welter of factors, including the relative diversity and complexity of the company's portfolio of businesses, and of each business. Equally relevant is how skilled or otherwise the company's managers are at strategic analysis, planning and control. Relatively unsophisticated companies need to progress through a series of formal learning stages before emerging with as informal yet effective a strategic process as GE's.

Goold argues that, at least in Britain, most companies' strategic skills and processes are still at the stage which GE had reached in the early to mid 1970s. Even if one allows for some compression of the time companies now require to learn new skills, he says there may be more need for formal strategic control processes over the next decade than many managers realise.

Special pleading from a strategy consultant? Perhaps. But there is more than a grain of truth in his point that several phases of strategic "tightness" may be needed before a company can emulate GE – which has not, in any case, gone as strategically "loose" as many people think.

Christopher Lorenz

Strategic Control Processes. Ashridge Strategic Management Centre, London, UK. 071 323-4422.

MONDAY INTERVIEW

A healthy look at the long term

Nicholas Brady, the US Treasury Secretary, speaks to **Peter Riddell**

"LONG-FUSED" is a favourite expression of Nicholas Brady, the US Treasury Secretary. Whether talking about American business, his former world of investment banking or his current one of government, Mr Brady likes to focus on the long-term.

"I've been impressed over the years that the world is full of long-fused successes and that the American businessman operates best when he has predictability of factors going into his plans." Similarly, he complains how the tight Budgetary squeeze impinges on the Government's ability to help shift the focus to the long-term – "it limits the policy options in a very dramatic way."

Mr Brady's long-term focus is unusual in a city preoccupied with today's controversy and tomorrow's deal. He stands out from the conventional Washington man of power, who is highly articulate, assertive and adroit at manipulating relations with the press and Capitol Hill. By contrast, Mr Brady is low key, hesitant and an indifferent public performer, hampered by lifelong dyslexia.

But he is approachable, straightforward and ready to admit uncertainty when others offer instant solutions. Above all, Mr Brady is trusted, both on Capitol Hill and by his close friend in the White House.

In many ways, Mr Brady is still the investment banker he was when running Dillon Read, offering disinterested, non-ideological advice. Only now his client is the US president.

Because of his absence of public flair Mr Brady tended to be written off by many in his early days. He did not help himself with a number of political gaffes, while he lacked the fluency of his predecessor, Mr James Baker, at international meetings.

But Washington opinion has now shifted more in Mr Brady's favour, in part because his private influence with President Bush has come to be appreciated. Mr Brady has also won some battles – for instance successfully lobbying Senators last month over the nomination of a new savings and loan regulator.

A week ago he, and under-secretary David Mulford, won international support for a limited increase in the resources of the International Monetary Fund linked to tough action on arrears to the fund. Mr Brady has appeared more relaxed personally in the last three months following a hip replacement operation.

Mr Brady's long-fuse approach has also begun to work. Both his main initiatives – to reduce the debt burden of Third World countries and to rescue the financially troubled US savings and loan or thrift industry – have had mixed records. But they are advances, however flawed, on what went before. Several debt reduction deals have been agreed and the thrift rescue has been launched, even though more money will be needed. He dismisses talk of a crisis, conceding shakedown problems, which "will be cured and we'll move on."

Recently Mr Brady has sought to stimulate a debate about the US's long-term problems. He sees the threat as being a combination of "a tax code jumping around every 15 minutes, a takeover movement so violent that nobody can concentrate on long-term plans,

PERSONAL FILE

- **1930** Born, New Jersey. Educated Yale and Harvard Business School.
- **1954** Joined Dillon Read.
- **1982** Served eight months as appointed member of US Senate for New Jersey
- **1982-88** Chairman and chief executive officer at Dillon Read.
- **1988** Appointed Treasury Secretary by President Reagan.

and a preoccupation with short-term earnings because they are pitched to stock options and bonus plans."

Mr Brady acknowledges that at present he can for the most part only call attention to problems. "We should have benefits for research and development which would extend over time. But you obviously have a negative effect on Budget revenues. We should also aim at a cost of capital that is competitive with the rest of the world. I would certainly rank a capital gains differential – a lower rate relative to income tax – in that programme."

He is particularly concerned with the anomaly whereby dividends are taxed twice (at both the corporate and individual level) and interest only once. He favours an integration of corporate and personal taxation where there is a fairer treatment of equity as opposed to debt. "If you give borrowed funds a more privileged position people are going to use that as a method of generating capital that has a much shorter time fuse than equity. Equity capital is forever."

While Treasury officials are preparing a study of various options, "the particulars of how it might work are not completed and have no time date. The problem is that irrespective of how you do it there is an enormous hit on the Budget."

Mr Brady also talks of changing the framework of corporate governance. He thinks that "some part of the intensity that fuels the takeover phenomenon is that the normal procedures that would be present in a totally democratic form of corporate governance aren't there. The average shareholder feels somewhat disenfranchised.

"A great deal of the rationale for the takeover binge was fuelled by the fact that this is an effective way of exerting corporate governance. I think that's a bum way to do it. You have to have stability. You can't have a change in corporate direction every time there is a hiccup. Those who thought they were improving the US's ability to compete internationally because of the takeover phenomenon, by putting in new management and increasing the efficiency of management, have produced the opposite result. They've added to the short-term preoccupation because they've got everyone looking over their shoulders to provide a quarterly increase in profits which has the effect of cutting down long-term profits."

'If you want to see the benefits of stability, look at Japan'

Instead, he suggests, "if you want to see the benefits of stability, all you have to look at is Japan. We should be headed in their direction if that implies trying to aid in providing corporate management and boards with the wherewithal to think long-term."

Mr Brady has talked of encouraging a partnership between shareholders and executives in achieving a corporation's long-term goals. He sounds sceptical about a closer involvement of outside non-executive directors. Recalling his own days on a number of boards, he says time requirements have probably increased fivefold in the last 15 years. "It is very hard for an individual to be on more than five boards and conduct his own business. There are requirements for audit, finance, long-term planning, nominating committees. There are probably six or eight of them on every board. It's enormously time consuming."

Mr Brady describes as "passing strange" the preoccupation of pension funds with short-term investments. "The beneficiaries of these plans – the working people of America – should have a big interest in seeing that those funds are deployed not only profitably but also so that more jobs are created and enterprises are more competitive." He says a proposal from Senators Robert Dole and Nancy Kassebaum for a short-term turnover tax "certainly catches the eye. However, it is a tax. But it indicates that Congress is very interested in pension funds being the source of patient or long-term capital."

The Treasury is also closely interested in financial markets, on which Mr Brady has strong views as head of the presidential commission which looked at the October 1987 crash. He is pressing, against strong opposition, for the Securities and Exchange Commission to regulate stock index futures as well as stocks, which he sees as being part of a single market.

Work has started on a review of the international position of US banks. A new plan is not about to burst on the landscape, but ideas are being discussed to make the system more competitive. Mr Brady supports replacement of the 1930s' Glass-Steagall law separating investment and commercial banking, though he sees a change more as a natural evolution than a panacea. Federal deposit insurance and non-bank investments in banks are also being examined.

Mr Brady admits some concern about the current problems of US banks, but notes that in the US at present there are rolling downtrends, both in industries and in regions. "You get it in California, you get it in the south west, now we've got it in New England – regional setback in the electronics industry, some of the service industries that have replaced textiles and in real estate. Every time a region has a downturn it shows up in real estate."

He does not believe there will be a repeat in the commercial banking system of what has happened in the savings and loan industry – as long as there is continued growth. "If we're going to have a big downturn then all bets are off. But I don't see that. I see what the statistics in the first quarter have produced – medium-sized growth."

In the end it all comes back to finding a solution to the Budget problem, about which Mr Brady is "very optimistic". He looks forward to an agreement – following the bipartisan talks starting at the White House tomorrow – not just for the reduction in the deficit it may produce, but because then "we'll be able to talk about some of these things" which will help the long-term competitive position of the US.

Freedom of expression post Winchester Three

JUSTINIAN

Courts are sometimes faced with cases which in legal form present no political problems but in fact give rise to immediate political consequences.

Such was R v Cullen, McCann and Shanahan – the case of the Winchester Three whose convictions for conspiring to murder Mr Tom King MP (at the time, Secretary of State for Northern Ireland) were quashed by the Court of Appeal.

The court concluded that highly-publicised comments on radio and television by Mr King himself and Lord Denning, made contemporaneously with the final stages of the trial which were critical of the hallowed right of an accused to remain silent both on arrest and on trial, fatally prejudiced the trial of the three defendants who were relying stoutly upon their right to silence.

While there were plaudits for the evident demonstration of judicial independence at a critical moment in Anglo-Irish relations over the two systems of criminal force applied to IRA terrorists, there is a distinct uneasiness about the impingement of the decision on freedom of expression. The political impact of another blow to free speech may be more lasting than the temporary boost to the Anglo-Irish Agreement.

The case was peculiarly unusual in the facts surrounding the criminal event and the circumstances of the ensuing criminal trial. The three accused had been reconnoitring in the extensive grounds which border on Mr King's country house in Wiltshire. After Mr King's daughter, who was in the vicinity horse-riding with a friend, had become suspicious and alerted the police, the three accused were discovered with the accoutrements of terrorist activity. Mr King appears to be the potential victim of these preparatory acts.

English law has always displayed a thoroughly pragmatic approach to complaints by a defendant that a trial is aborted by prejudicial publicity in the media.

The judges have felt confident that whatever the publicity, jurors are well able to thrust aside anything that they have seen or heard, and try the case on the evidence elicited in the courtroom: "The drama of a trial almost always has the effect of excluding from recollection that which went before," is how the Law Justice of Appeal put it.

That is not to say that particular prejudiced publicity should not be discouraged by the use of contempt proceeding against the offending newspaper editor or broadcaster, even

The precedent created by the Court of Appeal is unsatisfactory because there was available to the Court an easy way out of the dilemma

if the trial proceeds uninterrupted. Even then trial judges can always discharge the jury and start again.

The trouble in the Winchester Three case was that the trial judge reckoned that the jurors, suitably warned, could dismiss any prejudiced matter from their minds. Quite exceptionally, the Court of Appeal thought he was wrong and was bound (as the law then stood) not to order a retrial. The three went scot-free, and no contempt proceedings against Mr King or Lord Denning seem conceivable.

The logic of the law is that comment on a matter of acute public interest – in this case, the accused's right of silence – is to be severely limited if it may adversely affect the accused's defence in some criminal trial in progress.

The precedent created by the Court of Appeal is even more unsatisfactory because there was available to the Court an easy way out of the dilemma. It involved an alternative ground of appeal which raised an important legal point devoid of political overtones.

The jury at Winchester heard no direct evidence that the accused had agreed among themselves on a course of conduct with the intention of murdering Mr King. The jury could have arrived at a decision that there had been such an agreement, but it would have done so only as a matter of inference from the proved circumstances.

There were two main rival influences that could be drawn from the proven facts. Either the three had already agreed to murder Mr King and were simply acting in furtherance of that agreement by spying out the land prior to the deed.

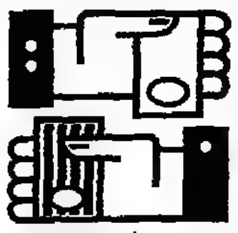
Alternatively, their reconnaissance of the Wiltshire countryside preceded any agreement to kill Mr King. They might have been reserving any criminal intent until they had done a feasibility study on the ground, or had been sent by their Irish colleagues on an intelligence gathering mission. In either case, there would have been no criminal conspiracy, only a step preparatory to entering into a conspiracy, which does not constitute a crime.

The Court of Appeal acknowledged that the "wide nature of the information" which the accused had accumulated and recorded, together with the diversity of the material found on them, "showed it was equally compatible with a course of conduct which did not necessarily involve or include the murder of anyone".

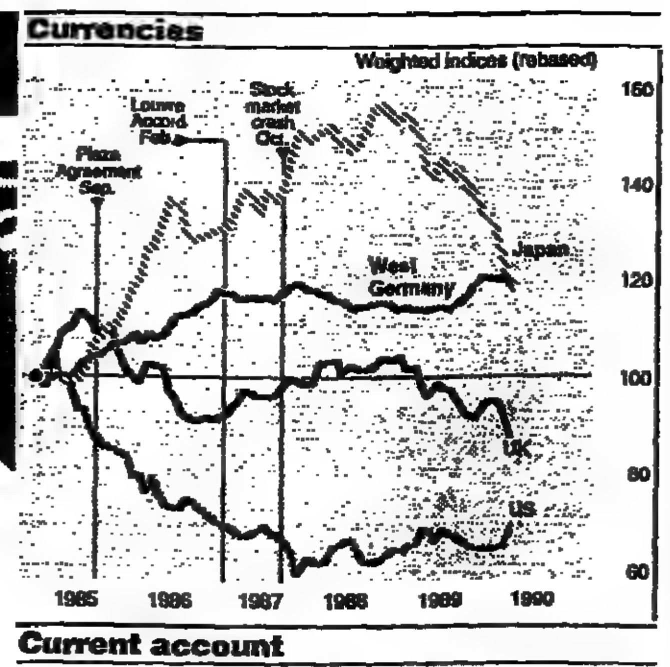
At a time when the Court of Appeal is being criticised for exercising too sparingly its power to set aside a jury's verdict as "unsafe and unsatisfactory" this was a lost opportunity. Judicial independence, as well injecting sense into the law of conspiracy, would have been manifested within the court, with the issue being swept up in a tide of political comment about either terrorism or legislation. This could profoundly affect a fundamental aspect of the criminal justice system.

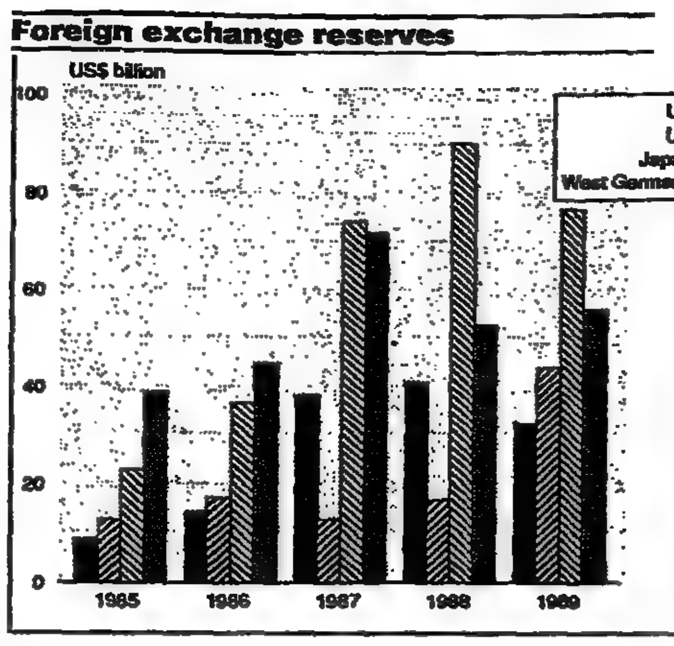
SECTION III

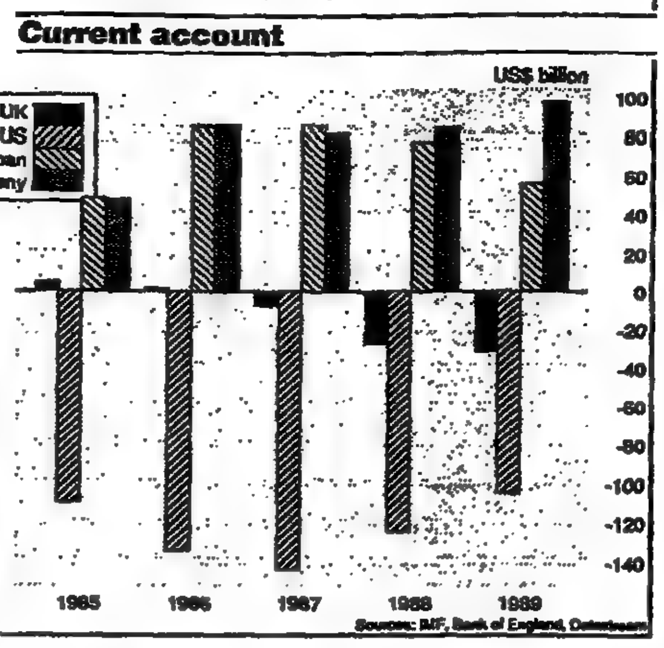
FINANCIAL TIMES SURVEY



The 1990s open a new chapter in the markets, with stress on domestic policies. This explains the partial eclipse of G7 efforts to stabilise exchange rates, says **Peter Norman**, after a year that has seen huge changes which alter radically the global outlook.







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Inflation casts its shadow

AFTER THE extravagant eighties, the world's economic policymakers are having to adjust to the no-nonsense nineties.

The revival of inflationary pressures that started in the leading industrial countries about two years ago has led to a renewed emphasis on counter-inflationary policies that is continuing. First, the US and West Germany, and later the UK, raised short-term interest rates to combat the threat of higher prices.

More recently, long-term bond rates have risen sharply. This development, which reflects a growing global need for capital in the wake of the economic liberalisation of eastern Europe and a decline in savings rates in the industrialised world, has reinforced the trend for interest rates and interest-rate differentials to determine currency movements.

International investment is an unsentimental business, where high returns and the security of capital dictate investment flows. The widespread deregulation of financial markets and falling barriers to the free flow of funds between countries have further increased the power of the foreign-exchange and bond markets to influence national policies.

Any country that fails to keep its prices under control, or to reward foreign holders of its currency adequately against the risks of inflation, stands to suffer a devaluation of its currency and the attendant risk of still higher inflation through rising imported goods' prices.

As a result, all the leading industrial nations now aspire to hard-currency status. But because, by definition, not all countries can have a strong currency at the same time, the foreign exchange markets have again become the focus of national rivalries.

This phenomenon explains the partial eclipse of the efforts of the Group of Seven leading industrial nations to stabilise exchange rates. The failure in April of the G7 – consisting of the US, Japan, West Germany, France, Britain, Italy and Canada – to put together a credible package to support the yen after the currency's trade-weighted fall of around 20 per cent since the beginning of 1989 illustrated the current limits of policy co-ordination.

The present reduced importance of co-ordinated action by the leading industrial countries in currency markets contrasts with the successful action by the Group of Five countries (the G7 minus Italy and Canada) to depress the dollar after their September 1985 Plaza Accord and the efforts of the G7 following their February 1987 Louvre Accord to stabilise currencies.

On the other hand, the shift from international to domestic priorities in economic and monetary policy has enhanced the importance of central bankers. It is no coincidence that countries such as New Zealand are seeking salvation from inflation in greater independence for their central banks, or that in Britain a lively debate is under way over whether the Bank of England should be given greater responsibility for the conduct of monetary policy.

Instantaneous electronic communications, linking foreign exchange operators in centres such as London, New York, Tokyo, Frankfurt, Paris and Hong Kong, have lifted the estimated daily turnover on foreign exchange markets to a level in excess of $700bn.

Over the past year, the forex markets, the central bankers and the world's finance ministers have had to cope with momentous changes that are likely to alter radically the global outlook for 1990 and beyond.

The democratisation and shift to market economies in eastern Europe; the planned monetary and political union of the two Germanys; the growing economic and political problems of the Soviet Union highlighted by Lithuania's declaration of independence – these have been events that would have been inconceivable a year ago.

They have already contributed to significant changes on financial markets, such as the new claim on capital, already made scarce by the 1980s investment boom in the western industrialised countries. The consequent volatility on financial markets has expressed itself largely in the escalation of long-term interest rates in recent months rather than in exchange-rate movements.

Between the end of last year and the end of April, the annual yield of US bonds with 10 years to maturity rose by a full percentage point to 9.2 per cent; by 1.3 points to 7 per cent in Japan; by 1.5 points to 8.9 per cent in West Germany and by 2.6 points to 13.5 per cent in Britain. Only in France, among the major issuers, were 10-year bond yields about stable, edging up to 9.6 from 9.4 per cent.

Over the same four months, important currency cross rates showed divergent trends. Both the dollar and Deutsche Mark gained around 10½ per cent against the yen, while the cross rates for the dollar-sterling, D-mark-pound, dollar-D-mark and French franc-D-mark showed changes of between plus 1¼ per cent for the British pound against the dollar to minus 2 per cent for the D-mark against the French franc.

This disparity between recent long-term interest-rate movements and exchange-rate developments is explained by the varying perceptions of risk attached to the respective economies and currencies.

The steep rise in the yields of Britain's Gilt-edged securities mirrored the growing uncertainties surrounding the UK's economic performance as fears of rising inflation mounted, but helped to keep sterling relatively firm.

The potentially huge costs and possible inflationary implications of German monetary union weighed on the prices of D-mark bonds and produced some slippage in the D-mark's performance against the franc and French government bonds.

The tightening of Japan's long-term interest rates in the period failed to restore confidence fully to the yen. The relatively small increase in US dollar bond rates and the steadiness of the dollar, despite rising inflation in the US and fears for the stability of the US financial system, was partly explained by the dollar's re-emergence as a "safe haven" currency in the wake of Lithuanian unrest.

Although the past four months have been relatively calm in the turbulent history of the foreign exchanges, they contained some cautionary tales for policymakers.

A move by the Bank of Canada in January to narrow the gap between US and Canadian short-term treasury bill yields by around 40 basis points (40 hundredths of a percentage point) backfired horribly when it pushed the Canadian dollar down by almost 3 US cents. The Canadian central bank had to push short-term rates back up to levels higher than those when it initiated its policy of easing to reassure the markets of its counter-inflation credentials.

The yen's travails and the vulnerability of sterling pointed to the dangers of subordinating domestic policy priorities to international exchange rate stability.

Both Britain in 1985 and Japan in 1989 cut interest rates, in the interests of currency stability, to levels incompatible with controlling inflation. First Britain and later Japan suffered a draining away of international confidence in their currencies.

In Britain's case, the 1989 current-account balance of payments deficit of £21bn and headline inflation, which now looks likely to hover around 10 per cent through the summer, have added to the disenchantment with sterling.

By contrast, Japan could still boast a substantial, albeit shrinking, current surplus and an inflation rate far below British levels. But the rapid increase in its money supply and open discord between the Bank of Japan and the finance ministry, which prevented a tightening of monetary policy and an increase in Japan's internationally low interest rates, prompted holders of yen to move their funds elsewhere.

At the same time, the European Monetary System has confounded the sceptics by demonstrating great stability. The currencies participating in the EMS exchange rate mechanism have successfully weathered a series of potential shocks, ranging from Spain's accession to the ERM last June to Italy's removal of exchange controls today.

At present – on the threshold of a new decade and within sight of a new millennium – the world's financial markets are heading into a very uncertain future.

Will the higher interest rates of recent months permit continued steady growth or mark the beginning of the end of the economic upswing of the 1980s?

Will the EMS countries be able to escape the volatility of the free-floating currencies, such as the dollar and yen, and move ahead towards economic and monetary union in Europe?

And (a question that only a year ago would have been in the realms of fantasy) will the east European countries, and ultimately the Soviet Union, successfully make the transition to market economies, so that their currencies can be freely traded alongside the dollar, yen, D-mark and pound?

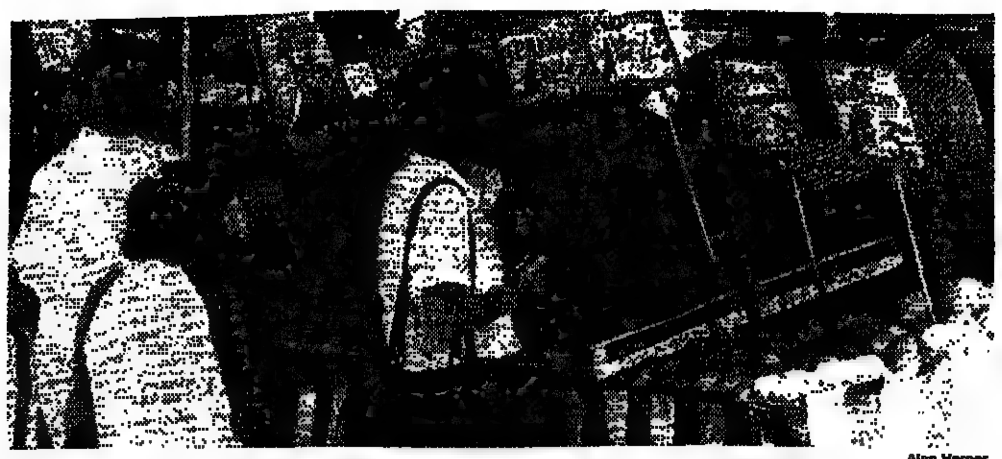
Foreign Exchange

Eastern Europe: the quest for convertibility

A free market comes first

THINK OF all a West German can do with a pocketful of Deutsche Marks.

She can go out and buy goods in her local shops – some made in West Germany, but many made abroad. She can hold them, knowing that – thanks to the Bundesbank – her money will buy almost as much a year from now as it does today. Better still, she can deposit her D-Marks in a bank, buy equities or, if her pocket is deep enough, purchase machinery and set up a factory. She can take them abroad and buy whatever strikes her fancy. She can use them to buy foreign stocks and shares or even foreign factories.



Alan Harper

Enjoying the fruits of freedom in Frankfurt: alternatively, she might save her Marks or buy equities

She is, in fact, the possessor of a symbol of a free economy: money that she may spend as she sees fit. By spending it she can influence producers not only in her own country, but throughout the world.

If the D-Mark is a symbol of one of the most successful of capitalist economies, the rouble is a symbol of the mother country of communism. For the rouble in her pocket allows the Soviet citizen to do virtually nothing. It is a parody of money.

True, she can take her roubles to her neighbourhood shop, but she will have to queue there for very limited quantities of poor quality, almost entirely domestically-produced, goods. She can also take her roubles to a free market, but prices will be a large multiple of those allegedly offered by the state.

Unhappily, the shortages will get worse. The government is printing ever more roubles in order to bridge the gap between its revenues and expenditures (the Soviet budget deficit being 11 per cent of gross national product in 1989). Still more are being created by banks to keep enterprises afloat.

Yet the Soviet citizen has few alternatives to cash, except savings deposits that pay nugatory interest rates of 2-3 per cent. She cannot buy stocks or bonds. She cannot purchase most forms of real property. She is certainly not allowed to buy enterprises. She cannot, except in special circumstances, change her roubles into foreign currency, foreign goods or foreign assets.

If *he* (most unlikely to be she, even in the land of equality) is the manager of an enterprise, the Soviet citizen has little greater freedom. He cannot use the enterprise's money to buy goods freely from other enterprises. He can buy goods and services abroad, but almost exclusively with foreign currency his enterprise has earned.

Four lessons can be drawn.

■ First, a distinction must be made between convertibility into domestic goods and services (the elimination of price control), into foreign goods and services (convertibility on current account), into the full range of domestic assets (freedom of enterprise) and into foreign assets (convertibility on capital account).

■ Second, the external non-convertibility of a currency is an alternative and more comprehensive way of imposing protection against imports.

■ Third, its owners will try to flee from a currency that is mainly a covert tax. If the currency is made convertible into domestic goods and assets, the symptom will be hyperinflation. If it is made convertible into foreign currency, the symptom will be a collapse in the exchange rate.

■ Finally, and most fundamentally, eastern European economies can only have convertible currencies as, and to the extent that, they become market economies.

It is no accident, therefore, that the first eastern European currencies to be made convertible into foreign exchange (though for current transactions alone) were the Yugoslav dinar (at seven to the D-Mark since last December) and the Polish zloty (at 9,500 to the dollar since January). This move to convertibility reflected the desire of the two prime ministers, Mr Ante Markovic in Yugoslavia and Mr Tadeusz Mazowiecki in Poland, to introduce market economies.

The move to convertibility in Poland and Yugoslavia also reflected their desire for price stabilisation. Having decided to make the currencies convertible into domestic goods and services, through price decontrol, the two countries experienced the inevitable result of soaring inflation They then chose external convertibility at a fixed exchange rate as a means of stabilising the terms of internal convertibility.

Such an external anchor, while helpful, is not enough. The currency spigot must be turned off as well. Central bank financing of the deficits of the state and enterprises has to be eliminated. This, in turn, means that budget deficits will have to be reduced (or, better still, be eliminated) and the "soft budget constraint" on state enterprises made firm.

After Poland and Yugoslavia, Hungary and Czechoslovakia may be the next to try. The fate of East Germany is *sui generis*. The East German Mark is not to be made convertible; it will be abolished, along with the state that produced it.

The Soviet Union's soft rouble is so far from convertibility, even on current account, that some radicals(and many outside observers, too) have suggested a short cut: the introduction of a parallel hard currency. This would work like the gold-backed Chevronets of Lenin's New Economic Policy in the 1920s.

The proposal suffers from two important defects. First, in the presence of continued distortions in domestic relative prices, the partial opening of the economy could lead to hugely wasteful commercial decisions.

Second, the parallel hard currency would be no more than a covert way of "dollarising" an economy. The destruction of the old soft currency would be accelerated and, if domestic budgetary and monetary reform had not occurred, the government would find itself under irresistible pressure to destroy the new currency, too. In sum, if the government were to implement the necessary budgetary austerity, introduction of a parallel currency would be unnecessary; if the government were not to, it would be useless.

Moves towards convertibility of existing eastern European currencies are a component of the movement from a controlled economy, dominated by the state, to a market economy, based on private property. Convertibility, particularly external convertibility, requires radical changes in the processes of monetary creation and price formation. As to timing, convertibility can be as swift as economic reform itself. But, if convertibility, even on current account, were sustained, the reforms that would have then occurred deserve the epithet "revolutionary".

Martin Wolf

German monetary union

The D-Mark can cope with it

THE SPEED with which debate over currency union between the two Germanys has advanced – from vague timetables measured in years, to a political imperative impatient of all economic niceties within a matter of weeks – has been, to say the least, bewildering.

Now the Deutsche Mark seems set to circulate east of the Elbe from July 2, on terms that may today appear generous – but which would have been greeted as sheer madness in January.

Somewhat surprisingly, economists, as well as politicians, appear confident that the transition can be managed without too much economic dislocation, and, crucially, without tarnishing the D-Mark's prized hard currency image.

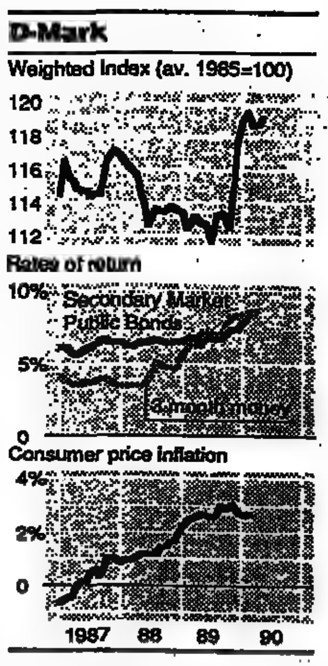
The West German government's proposals – which may be modified a bit in the course of bargainings with East Berlin – are for most savings (up to 4,000 East Marks), together with wages and pensions, to be converted at parity – one East Mark to one D-Mark. Corporate debt will be halved in value, converted at a rate of 2:1.

The terms are more generous than the scheme put forward by the Bundesbank, which, having swallowed the political realities forcing union sooner rather than later, suggested an overall 2:1 rate with the exception of savings accounts of 2,000 East Marks or less.

The circumstances for this unprecedented experiment are not ideal. To begin with, as any textbook will explain, monetary union between two such unequal regions ought to occur in stages, the last, not the first, of which should be currency union, so that exchange rates themselves can ease the adjustment process.

Instead, the inconvertible East Mark is to be transformed, overnight, into one of the world's leading currencies. This is because Bonn did not have the luxury of the gradualist approach. A rising tide of *émigrés* from the east could best be stemmed not by a distant promise of D-Marks, but by prompt conversion. Moreover, the vast sums of capital investment required to put the region back on its feet would remain elusive if the East Mark had stayed in place.

Another significant factor besetting the process has been the divergence of views between the Government and the central bank. The Bundesbank's independence looked heavily compromised in February, when it proved merely a helpless onlooker as Bonn took the plunge towards rapid monetary union.



However, instead of the spectre of a weak D-Mark, beset by inflationary fears and undermined by a less than confident Bundesbank, most commentators are confident that the central bank is poised to offset any near-term weakness with a firm tightening of policy, and that the longer-term growth potential of the enlarged region will buttress the D-Mark, internally and externally.

Meanwhile, the inflationary fears of the effects of monetary union, which precipitated a crash in the domestic bond market in February, are now said to be overdone – and West Germany certainly starts from a very low base. Consumer prices are now growing at a rate of just 2.3 per cent. And the immediate dangers – in the form of higher unit labour costs after the current tricky wage round – are home-grown rather than a product of the annexation of the East German economy.

Meanwhile, the inflationary impact in the months following July 2 is generally being played down.

The current Bonn proposals to convert East German savings up to East Marks 4,000 at parity would add around DM120bn ($71,479.6m) to the money supply, or around 10 per cent of the total. This is only DM20bn more than the sum that would have resulted had the Bundesbank proposals been adopted.

All the same, the key factor, which no one can predict, is how much of this will translate into an inflationary boost to demand through a national spending spree. A lot depends on the nature of alternative investment schemes, notably the attractiveness of property purchases or of shares in newly privatised companies. These are some of the crucial details that have yet to be worked out.

The optimists argue that, since the West German economy is anyway fairly open, some of the extra demand can be easily met from other European economies, notably Britain, that are slowing fast.

But some inflationary boost there is bound to be. The extent of it, and hence its effect on the value of the D-Mark, depends a good deal on the Bundesbank's willingness and ability to act.

Mr Karl Otto Pöhl, its president, has made it plain that he does not wish German union to be financed through too strong an increase in the money supply. Obviously relationships with Bonn could be strained in coming months, as the debate over the mix of monetary and fiscal policy begins to be aired. Mr Pöhl has said that, in his personal view, the Government should not be excluding taxes as one way to cover the costs of union; whereas Mr Theo Waigel, the finance minister, continues to argue that higher taxes will be unnecessary as increased growth compensates for increased spending needs.

While the markets expect some action by the Bundesbank, to tighten policy during the third quarter, the timing could be tricky, as the Government's sensitivities increase with the approach of the December elections.

Nor is the Bundesbank's position as unambiguous as it was. The political weather has changed since the advent of Mr Hans Tietmeyer, formerly under Mr Waigel within the finance ministry, at the central bank. Mr Tietmeyer, a dogged supporter of German unification, was recently chosen as the chancellor's personal adviser on monetary union. The incipient rivalry between him and Mr Pöhl could well increase if Bonn's case is heard louder in Frankfurt.

As for the external value of the D-Mark, high real interest rates, an inevitable by-product of the hefty forthcoming capital requirements, are likely to mean that any strains are felt within the European monetary system, rather than in the D-Mark's value against the dollar.

This year the D-Mark has been weak against most other European currencies, as money has flowed into the high-yielding franc, lira and peseta, now that the prospects of a realignment have receded, thus removing a large element of currency risk. Yield differentials between these currencies and the D-Mark have indeed narrowed sufficiently to allow some countries to make moderate interest-rate cuts. This pattern could well be reversed as the economic realities of currency union begin to bite.

In the longer term, the Bundesbank, already facing the challenge of conducting monetary policy in an enlarged region where some of the traditional indicators have yet to be developed, may see its sphere of influence widened still further. This is because developments in eastern Europe almost inevitably presage an enlargement of the D-Mark bloc. Already the Mark is replacing the dollar as a parallel unit of account in countries such as Poland.

Existing trade ties between Germany and the east, as well as the importance of German industry in the regeneration of the area, will do more to enhance the role of the D-Mark – and complicate the conduct of monetary policy.

Katharine Campbell

☐ **Articles covering the dollar, the yen and sterling appear on page 4 of this survey**

The EMS is in sound health at a time when it needs to be, reports **David Buchan**

The system faces its severest tests

THE EUROPEAN Monetary System (EMS) is in for the greatest challenges of its 11-year existence.

Two of its larger members, Italy and France, have just removed all capital controls; German monetary union takes place in less than two months; negotiations for Economic and Monetary Union (Emu) are due to start by the end of this year; and there is always the possibility that one of Europe's more volatile currencies, sterling, will join the EMS parity grid in the not-too-distant future.

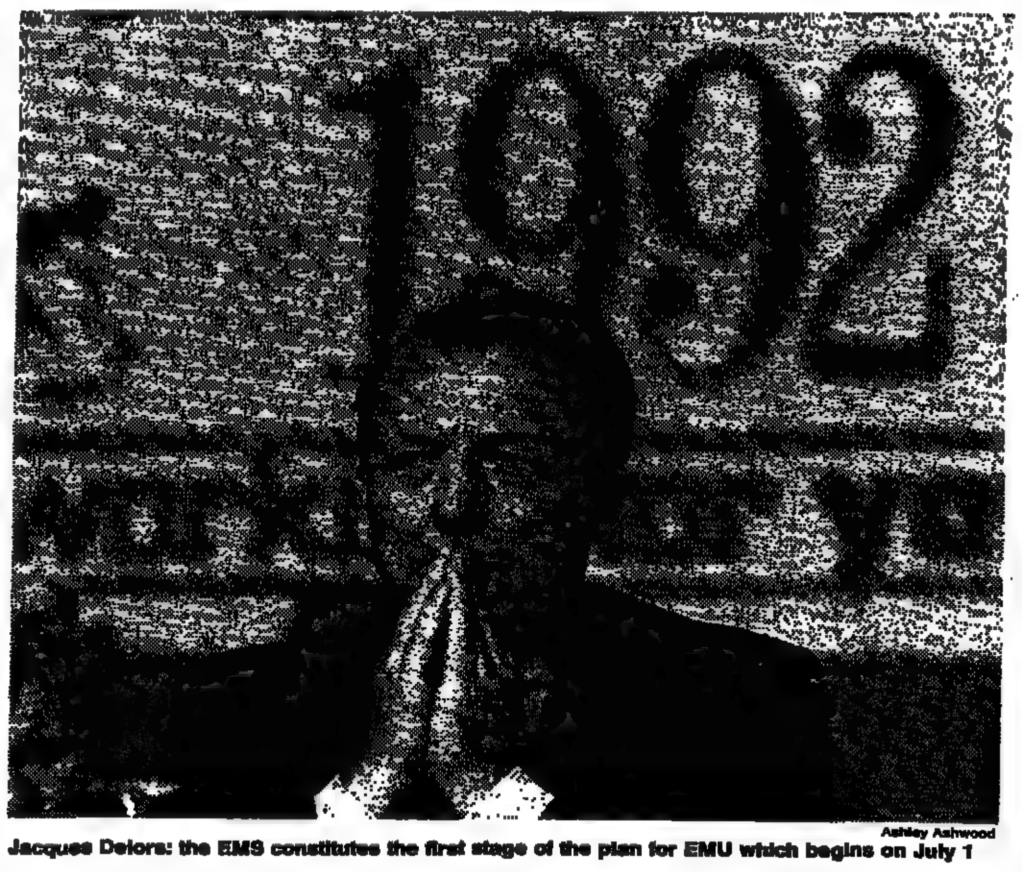
Luckily, the EMS seems in remarkably sound health. Its last real realignment was in January 1987. Certainly, there appeared to be Bundesbank pressure for a realignment late last autumn, when the Deutsche Mark was driven up in the euphoria of the Berlin Wall's being breached. But this tension quickly subsided, and the only change was the Italian decision to simultaneously devalue the lira and move it from the wider 6 per cent fluctuation band (where it had been since 1979) to the narrower 2.25 per cent band.

Nor have extraneous events, such as the slide of the yen and rise of the dollar this year, caused stress inside the EMS.

■ **Capital controls:** When, on May 14, the Rome government removes the last of the long-standing curbs placed on the free movement of money out of Italy, the eight richer EC states will have fulfilled their commitment to abolish all foreign exchange controls by July 1990. France eliminated similar controls in January, while Belgium and Luxembourg did away in March with a two-tier exchange rate that no longer had much function. (The four poorer EC states – Spain, Ireland, Portugal and Greece – have been given longer, between 1992 and 1994, to free their money).

Theoretically, the stability of the EMS is now under much greater threat, with large sums of hot-money free to slosh around Europe. In fact, capital controls were probably an unnecessary crutch. By corralling domestic savings, and therefore keeping domestic interest rates artificially low, they were supposed to enable governments in countries like Italy to finance their deficits cheaper.

But controls never did seem to insulate domestic interest rates effectively from Euro-market rates. Nor did the controls have much effect in curbing actual flows; France and Italy have had a higher ratio of short-term capital flows to trade than control-free Germany.



Ashley Ashwood

Jacques Delors: the EMS constitutes the first stage of the plan for EMU which begins on July 1

■ **German unity:** July 2 – the day after the deadline for the freeing of most of Europe's money – will see the formal extension of the D-Mark to East Germany. Clearly, the split rate of conversion – 1 D-Mark for each Ostmark for wages, but 1 D-Mark for 2 Ostmark-worth of debt – raises the prospect of inflation. Several million East Germans will suddenly get richer, and the Bonn government more indebted. However, the inflation threat should be containable – unless East Germans blow their new D-Marks all at once on consumer goods or holidays in Spain.

So far, the prospect of German monetary unity has had the not-unhappy effect of weakening the D-Mark against some other currencies, without perceptibly weakening its role of anchor of the whole EMS system. The D-Mark has fallen this year, from the top of its bilateral EMS band with the French franc to parity with the French currency.

This emboldened Paris, in late April, to cut interest rates by a quarter percentage point, leaving the franc no weaker. Yet, while Mr Pierre Beregovoy, the French finance minister, may boast that the franc should now be viewed independently of the D-Mark, none of Germany's partners on the good ship EMS seems to want to cut the D-Mark anchor.

■ **Sterling's entry:** Mrs Margaret Thatcher, the UK prime minister, has set out several pre-conditions for putting the pound in the exchange rate mechanism. Some of these conditions are being met – the freeing of capital controls and financial services, for instance.

The most important of her declared conditions is that UK inflation should be brought down nearer to the EC average. Therefore the key yardstick is the gap between UK and EC inflation, not the absolute level of either. This gap will diminish, or will appear to, if German unity pushes up prices generally, and if the UK Treasury gets its way and joins other EC countries in taking mortgage rates out of its consumer price index.

Mrs Thatcher's key unspoken condition is her relative standing in the polls; she will probably only overcome her dislike of the fixed-rate regime if her political advisers tell her that joining it is the only way to win the next election.

In total contrast to the UK, Austria and Norway have applied for associate membership of the EMS, only for EC finance ministers to decide in late March against letting any non-Community countries into the system. The EC is likely to offer Vienna and Oslo a consolation prize in the form of closer intervention arrangements. The prevailing sentiment, especially among Latin countries and the commission, is that the EMS is now too inextricably part of the move to Emu to be diluted with outsiders. The pity for Austria and Norway is that had they applied only two years ago, their bid would have been accepted.

■ **Monetary union:** The EMS is the essential building-block on which the EMU architecture must rest. Indeed, the EMS, with a few important frills, constitutes the first stage of the Delors plan for EMU which begins on July 1. These frills are removal of capital controls, and a greater degree of Community monitoring of national economic policies (witness, for instance, the ticking-off that Brussels recently gave Greece for its economic performance).

All 12 EC states agree with Delors stage one. Indeed, for Mrs Thatcher, it is virtually the be-all and end-all of monetary union – her Treasury's paper on an "evolutionary approach" said that EC states should let their monetary policies compete, in conditions of complete financial freedom, so that the best with the lowest inflation rate would win out.

But the UK plan has more or less totally failed to push the Delors plan, with its proposed Euro-Fed cental bank in its later phases, into the wings. However, the Delors plan, as drafted in 1988-89 by a committee dominated by central bankers of the Twelve, is provoking its own controversies.

For instance, the plan called for centrally-agreed and binding limits on national budget deficits. Even Mr Jacques Delors, the commission president who presided over the report that bears his name, believes now that such binding limits would scupper the chances of the Twelve ever agreeing to monetary union.

So, the Commission urges that member states should set their own budget rules. But a majority of central-bank and treasury representatives on the EC Monetary Committee still believe that monetary policy cannot alone ensure discipline in a monetary union, and that without some central control over spending and taxing, there is a danger of less responsible states exploiting the good name of the monetary union and charging off on a spending-and-borrowing spree.

Other unresolved questions include whether the EC should aim at locked exchange rates, which would have the psychological advantage of allowing member states to keep issuing their own distinctive notes and coins, or a single currency, presumably the Ecu. The original Delors report was agnostic on this, but the Commission is now urging a single currency.

Another vexed question will be how to ensure that the Euro-Fed central bank is both independent and democratically accountable. Squaring that circle may prove the hardest conundrum of all.

The dollar has strengthened against the yen, but slipped against the Deutsche Mark

Volatility abroad, uncertainty at home

THE DOLLAR's performance this year has been determined most decisively by events outside the US.

This is not only because events overseas have been more volatile, and in some cases dramatic, but also because negatives and positives for the currency at home have often seemed finely balanced.

The first four months have seen a bout of considerable weakness for the yen, and the dollar bounced off the Y160-level on several occasions. In the early part of the spring, the Deutsche Mark surged against all major currencies, in response to a largely euphoric reaction among investors to the tearing down of the Berlin Wall, nascent democratisation in eastern bloc countries, and speculation about the economic fruits of German union. The D-Mark has remained steady against the dollar, but slipped a little against other continental currencies as the nuts and bolts of monetary union are put in place.

In general terms, the dollar has strengthened against the yen and, along with most other currencies, slipped against the D-Mark. At the start of 1990, the dollar stood at Y146.50 and at DM1.6870.

By the end of April, the US currency was significantly stronger against the yen at Y158.90, and little changed against the D-Mark at DM1.6800.

The consensus of opinion in the currency markets, after the Group of Seven meeting in early April, was that the arbiters of world economic policy were a fading force, that each country was far more concerned with domestic than international issues, and that nothing much would be done to support the yen.

As it turned out, central-bank intervention in support of the yen was not particularly dramatic, but the yen – and the Japanese stock and bond markets – stabilised without their help. It did not, however, substantially appreciate, and there was talk of a clearer statement of intent emerging from the G7 meeting this month, in advance of the joint gathering of the International Monetary Fund and the World Bank.

By the time of this meeting, there was also talk of a co-ordinated rise in interest rates in the US, Japan and West Germany. All three nations, to a greater or lesser extent, would like to see their currencies appreciate to limit inflation pressures.

Going into the meeting, there was also a feeling that the surge of the dollar against the yen so far this year was about to turn around, and that the US currency could do quite well against the D-Mark, which is under pressure because of concern about the planned terms of monetary union.

Mr Jim O' Neil, international economist at Swiss Bank Corporation in London, said at the end of last month that he believed that the period of yen weakness was almost over, because he expected a large improvement in Japanese inflation.

Much is uncertain about the outlook for the economies of West Germany and Japan, the two nations whose currencies have been in the limelight so far this year. And, given that international influences have been such a powerful determinant of the dollar's performance, it is also difficult to predict the future course of the dollar.

Much is uncertain about the outlook for the economies of West Germany and Japan, the two nations whose currencies have been in the limelight so far this year. And, given that international influences have been such a powerful determinant of the dollar's performance, it is also difficult to predict the future course of the dollar

One factor that has tended to support it over recent weeks is the fact that the financial markets have finally started talking about a tightening in monetary policy by the US Federal Reserve, in response to relatively robust growth and obvious inflationary pressures. In the first few months of the year, there was a significant convergence of yields within the G3, seen most dramatically in plunging US Treasury bonds. Their yields surged above 9 per cent last month on concerns that returns in the US market had become unattractive relative to other government bond markets.

There has also been a marked improvement in the US trade performance, although this has been against the European bloc rather than Japan.

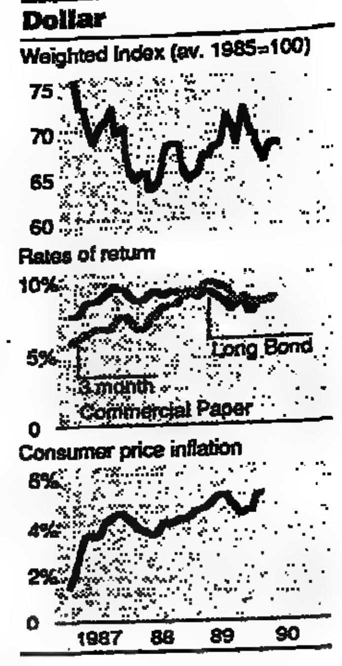
Against these positive factors for the US currency are some negatives, which are worrying in the longer term. One of the most fundamental – and this too has been reflected in the woeful performance of the Treasury market this year – is that US shares and bonds are not as attractive as they were.

This concern stems partly from the increased interest in investing in Europe, in advance of the 1992 economic integration and the unification of the two Germanys, but also from a projected propensity for the Japanese to divert funds away from overseas markets to finance domestic growth.

In the wake of the collapse of the Tokyo stockmarket this spring, there has clearly been some disinvestment from the US by the Japanese. The concern in the US is that this will become a long-run trend during the 1990s at a time when the Treasury's need to attract capital inflows is becoming more pressing all the time.

Not only has the cost of the government bail-out of the thrift industry escalated to unimaginable proportions – the latest guesstimate is $500bn, but even this is considered a moveable feast – but the process of cutting the US budget deficit, even without the cost of rescuing thrifts, appears to have stalled, and this year is likely to see some of the same painful wrangling in Congress over spending cuts which characterised the latter part of the last decade.

In the 1980s, overseas investors poured money into the US, despite the budget and trade deficits, apparently because of a perception that there were not many alternative places to park their



money. With the increasing interest in trade and investment in Europe, and the modernisation in capital markets outside the US which makes it easier for investors to operate in those countries, this may no longer be the case in the 1990s.

Janet Bush

Two fundamental forces have contributed to the yen's weakening, but...

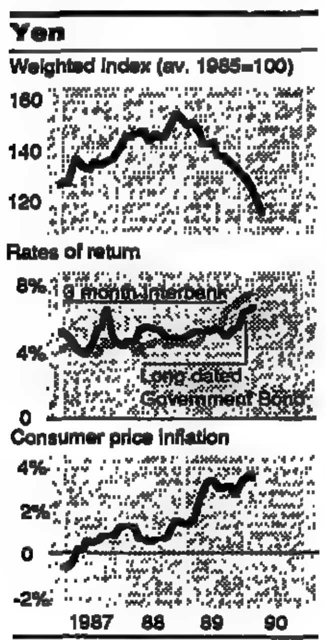
A recovery may be imminent

IT HAS been a tough year for the yen. The currency that was supposed to be the strongest in the world, which was supposed to advance inexorably against the dollar for the foreseeable future, has behaved very strangely in the past 17 months.

Against the US dollar, it has lost a quarter of its value since its peak in December, 1988 of Y121 to the dollar. Against the Deutsche Mark, it has tumbled 30 per cent, and against sterling, 14 per cent. The consensus view in foreign-currency markets is that it could weaken further in the near future before starting to recover.

The two fundamental forces that contributed to the yen's weakening over the past year and a half were the build-up of overseas investment by Japanese financial institutions and industrial companies, and an explosion of spending on overseas tourism.

By the end of May last year the yen had fallen to the Y145 to the dollar range, and the



uneasiness about the currency in foreign exchange markets was having such an impact on domestic-market interest rates and on import prices that the Bank of Japan (BoJ) felt obliged to raise its official discount rate (ODR), which had been at 2.5 per cent since February 1987, to 3.25 per cent.

In the new year, additional fundamental and intangible factors began to play against the currency, the most important of which was the plunge of the Tokyo stockmarket. In addition to causing some concern about the stability of the Japanese economy, the fall undermined the attraction to Japanese industrial companies of raising funds by issing convertible and warrant bonds in European capital markets. The virtual halt in these Eurobond issues eliminated a substantial inflow of funds that had helped support the yen.

The other big event was an unprecedented public row between the Ministry of Finance (MoF) and the BoJ over monetary policy. The struggle between the two first emerged during discussions to raise the discount rate in December. Accounts of what actually happened vary, but it seems that agreement on the move had been reached but that the Finance Minister, Mr Ryutaro Hashimoto, became enraged when news of the plan leaked a few days before it was to be implemented. His denial was so strong that the BoJ had to go through a ritual review of the plan before implementing it.

This messy incident might have been dismissed as a misunderstanding of the kind that could easily happen at a time when a new BoJ governor, Mr Yasushi Mieno, had just taken office. But it was loudly reinforced a few weeks later when Mr Makoto Utsumi, the outspoken vice minister of finance for international affairs, publicly questioned the BoJ's concern that asset inflation would feed through to other wholesale and consumer prices.

Terry Kirk

Ryutaro Hashimoto: became enraged when news of the plan to raise the discount rate leaked

Bankers in Tokyo say this row, which was still simmering two months later at a meeting of the G7 finance ministers in Paris, is unprecedented in Japan's post-war history.

Given the increasing complexity of the world monetary scene and Japan's suddenly enhanced role in managing it, it is not surprising that there are differences within the Japanese government on basic policy. The BoJ's concerns, like those of other central banks, have mainly to do with protecting the currency and preventing inflation. The MoF's concerns are broader, seeking in concert with other leading countries to ensure stability and growth in the world economy. However, this row appears to have had the practical effect of substantially delaying policy action – in particular, the latest ODR increase to 5.25 per cent, finally implemented on March 25, long after its inevitability had been accepted in currency markets and so nullifying its potential impact.

The persistent weakening of the yen in the past year has led to a questioning of the effectiveness of the exchange rate coordination accords among the G7, especially in the aftermath of their meeting in early April when it became clear that the other countries would not help the Japanese authorities defend the yen. Some analysts suspect that the US, in particular, is quite content to have the dollar strong enough to stave off inflation at home, and the yen weak enough to slow the politically sensitive inflow of Japanese direct investment. Meanwhile, the adjustment of the bilateral trade imbalance will probably not be adversely affected, because Japanese companies still feel the need to move production overseas.

Japanese analysts acknowledge that these benign results may prevail in the short term, but suspect that Japanese exports will tend to rise if the yen remains weak. In the meantime, Japanese export-oriented companies, which have break-even levels at much tougher rates of exchange than today's, are pulling in windfall profits and ploughing them into investments in new products and capacity.

Also, some of the other factors that have been playing against the yen appear to be turning. With domestic-market interest rates now over 7 per cent, the attraction of domestic securities over foreign ones has increased significantly, and so the outflow of capital should continue slowing in coming months. Life insurance companies served notice last month that they would take a more cautious attitude to May US treasury bond auction.

Second, the stockmarket plunge, although substantial, seems to have come to an end and, more important, seems not to have triggered any substantial damage in the real economy. Many economists believe the country's growth rate could ease slightly in the next few months, but no recession is foreseen. If one threatened, the Government, which is now operating with a comfortable surplus, would undoubtedly loosen its fiscal policy.

Third, the effects of last year's political crisis, although still unpredictable, seem less worrying in the light of the February general elections in which the ruling Liberal Democratic Party (LDP) won a convincing victory. Also, moves are now under way which are likely to result in the LDP's soon regaining the majority control of the upper house of the Diet (parliament) that it lost last year. That would ease the process of economic policy implementation.

In sum, many conditions necessary for the recovery of the yen appear to be coming into place, although whether they prove to be sufficient conditions remains to be seen.

Ian Rodger

PROFILE: Yasushi Mieno

New governor stands firm

THE JAPANESE financial community was dumbfounded in the first quarter of this year by the outbreak of a public battle between the Bank of Japan (BoJ) and the Finance Minister, Mr Ryutaro Hashimoto.

The unprecedented row, which undermined the credibility of Japan's monetary policy, started barely a week after Mr Yasushi Mieno had begun his five-year term as the 26th governor of the Bank.

The unlikely start to the career banker's time at the top began with a leak about the planned discount rate hike, which infuriated the finance minister. Mr Hashimoto believed another rate increase – following the two in May and October – was unnecessary, and would cause a further decline in the stock market.

But Mr Mieno maintained that monetary policy-making was the central bank's domain, and argued that the rate should be raised to relieve inflation without hindering Japan's robust economy. He implemented a 0.5 per cent rise on December 25, followed by a full 1 per cent hike on March 20, increasing the central bank's lending fee to financial institutions to 5.25 per cent. Many financiers approved the increase, but felt that it had come too late, and the prolonged battle had damaged Japan's credibility on the global money market.

Mr Mieno took over as governor at a difficult time. There had been two official discount rate hikes within a year (the first in more than nine years); inflation was rearing its ugly head, spurred by the new consumption, or value-added, tax; and the labour shortage was worsening. Against this backdrop, it was generally believed that Mr Mieno would not make any major changes in the Bank's policy as it moved from the long-term "easy money" stance to a much tighter one.

His predecessor, Mr Satoshi Sumita, a former vice-minister at the ministry of finance, had cut the discount rate five times during the late 1980s, in an attempt to lessen Japan's trade surplus by holding down interest rates to fuel domestic demand. This contributed to bullish stock and property markets, and was considered to have helped increase the gap

■ Mr Mieno's appointment pleased Japanese financial leaders, who were confident that he could cope with the tasks of stabilising domestic wholesale prices

between the haves and the have-nots in Japan in the past decade. Mr Sumita described Mr Mieno as "the best person for the job [of governor] – tough, but flexible when necessary."

Japanese financial leaders appeared pleased with Mr Mieno's appointment, confident that he could cope with the tasks of stabilising domestic wholesale prices, which had risen 3.9 per cent during 1989, and participating in an international network to prevent wide fluctuations in the value of the yen against other currencies. No one expected the new governor to engage in an open fight with Mr Hashimoto.

Mr Mieno was sworn in as governor on December 17. Born in Manchuria, in 1924, he graduated from the University of Tokyo in 1947 with a law degree, and joined the Bank of Japan the same year. Mr Mieno spent two years as associate representative in New York, and then became the manager of the foreign department in Tokyo.

During the past 43 years, he has moved along the central bank's spiral career path, gaining experience in several divisions, including planning, business, personnel, policy-planning and market operations. He was the general manger of the bank's Matsumoto branch between 1967 and 1970, and took over as senior deputy governor in 1984.

One shortcoming seen in Mr Mieno's impressive record was that he lacked international experience. As a rule, during his five years as Mr Sumita's deputy, he concentrated on domestic affairs. But Mr Mieno was said to have been Mr Sumita's right-hand man at the time of the Plaza Accord, in September 1985, when he played an important part in international attempts to stem the rise of the dollar, and he is generally considered well able to participate in global affairs.

Colleagues have described him as "compassionate but uncompromising". A former executive director of the BoJ, Mr Sokichi Minoura, said Mr Mieno was "a man of bold judgments"; and Mr Takeshi Ishihara, chairman of the Japan Association of Corporate Executives, said Mr Mieno's "flexible, but fast" ability to make decisions was a necessary tool to help nurture Japan's economy. Some say his tough exterior is the result of his days as a college student, when he sold soap, butter and others goods to support his family after the war.

Mr Mieno enjoys visiting art museums, reading – his favourite author is Fyodor Dostoevsky – and playing golf. He often shops with his wife "to check on consumer prices", said a friend, and has been taking private English lessons every week for the past 12 years.

Martine Gannon

Resolving the legacy of Mr Lawson will determine the course of sterling this year

Hot money the sustaining factor

NIGEL LAWSON, the ghost of sterling past, still haunts the foreign exchange markets.

Many of the policy errors which led to the pound's 11 per cent decline last year, and contributed to its current weakness, are blamed on the former chancellor. But it was also Mr Lawson who pressed the case for full entry to the European Monetary System in Cabinet, and then resigned when his row with Sir Alan Walters, *the prime minister's adviser,* over the subject proved too much.

Resolving the legacy of Mr Lawson will determine the course of sterling this year, and the task will severely tax Mr John Major, his successor.

Following Mr Lawson's departure, the pound fell to levels from which it has found it difficult to recover. Yet the UK currency's unhappiness had begun much earlier. In 1989, sterling plummeted for virtually the whole year.

The Bank of England's trade weighted index was 97.4 at the beginning of the year, and 86.0 at its end. Sterling fell by 11 per cent against the dollar, from $1.81 to $1.61, and by 15 per cent against the D-Mark, from DM 3.21 to 2.73.

Having found a brief respite at the beginning of the year, it became unstable again in late February, reaching an all-time low of DM2.7125 on 19 March. Since then, it has varied between brief periods of stability and lurches of confidence.

The UK's economic miracle started to fall apart in 1988, as it became apparent that the unsuspected pace of domestic demand was producing a rise in lending, inflation and the current account deficit. The pace and shape of the UK economic slowdown are still uncertain. Though output is flat, there is still evidence of high borrowing; and the impact of a profits squeeze on UK industry is still moot.

There are fears that, while growth will wither, price rises, fed by wage growth, will continue, contributing to stagflation. The danger signs are still coming through:

■ Inflation has been rising rapidly, reaching its peak so far with last Friday's (May 11) Retail Price Index. The impact of mortgage rate rises, the poll tax, the budget, and excise duty increases all helped produce the deterioration; but the underlying rate also continues to worsen, with the fear that wage rises will start to incorporate the high headline rates.

■ Monetary aggregates are growing rapidly. M0, the narrowest measure of money rose by 6.3 per cent in March, and is expected by some City analysts to increase to over 7 per cent for April. This compares with a target range of between 1 and 5 per cent. M4 was growing at 17.5 per cent in March.

■ The balance of payments swung into heavy deficit in 1989, with the gap on the current account reaching £21bn. Evidence of an improving trend was clouded by a deficit of £2.2bn in March, the second highest on record.

■ John Major (left) and Robin Leigh Pemberton have both stated that the condition that all barriers to the movement of capital within the European Community be removed has basically been met

The UK economy will, according to the International Monetary Fund, have the highest inflation and lowest growth of any of the leading industrialised countries this year. As Mr Robin Leigh Pemberton, Governor of the Bank of England said, clearly something has gone very badly wrong.

The Budget of March 1990 did little to ease analysts' fears about policy, since it did not seem sufficiently tough. There was little in Mr Major's package to ease fears that sterling was vulnerable.

Hot money has been the only factor sustaining the currency, drawn in by persistently high short-term rates, given a base rate of 15 per cent. Long-term capital has been leery of UK markets, and the principal casualty has been the becalmed gilts market. But the impact of these high rates may be muted, as inflation rises domestically, and as rates rise elsewhere. This would undercut the interest-rate differential, both domestically and externally.

Raising rates, in order to defend sterling, would lead to another rise in mortgage rates, thus increasing the Government's unpopularity. It would also increase the retail price index. Thus many analysts express doubts about the solidity of the Government's desire to protect the currency.

"With the authorities apparently willing to contemplate taking inflation risks...sterling will be allowed to take most of the strain," James Capel, the UK securities house said.

This underlines the other factor removing confidence in sterling: politics. The weakening of the Conservative party's support, as demonstrated in this month's local elections, undermines the UK's record for political stability.

It has raised concerns that the Tories might lose the next general election; and, worse still, that their record for prudent economic management could be thrown away in an attempt to protect the party from electoral defeat.

Nowhere is this complex interplay of political and economic factors clearer than in the debate over full membership of the European Monetary System. The UK is now committed to joining the EMS when the conditions stated at the Madrid summit are met, viz:

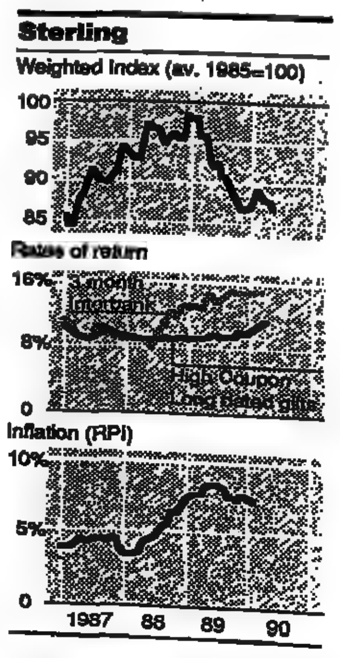
■ All barriers to the movement of capital within the European Community are removed. This, as both Mr Major and Mr Leigh-Pemberton have stated, is now basically met.

■ UK Inflation is brought down. This condition has now been sharpened to the degree that Mr Major has said that "proximate" levels of inflation are the key, and that trends should converge.

The two key questions remaining to be answered are the rate of entry, and the timing.

The rate of entry determines the impact on UK competitiveness, and the disinflationary impact of a stable currency. The timing, if political calculations are an element, depends upon the extent and effects of the benefits of entry.

If ERM entry provides greater stability and lower inflation, it should give an opportunity for lower interest rates. This would enable the Conservatives to bring down inflation and lower interest rates in the immediate pre-election period. This has led to suggestions that entry might materialise towards the end of 1990, or perhaps early in 1991.



But staying in the EMS will require the UK to live within its means, keeping wage rises in line with those of its European competitors and making sure inflation stays under control.

The solidity of the support that the EMS can give is, in the end, only as good as the policies that the UK adopts.

Andrew Marshall

☐ Second-line currencies are the subject of an article on page 6 of this survey . . .

Second-line currencies

Interest-rate rises curb appeal of high yields

HIGH-YIELDING currencies were one of the fashions of the late 1980s. But the return of instability between the major currencies, and a rise in interest rates, may mean that they retreat a little further into the background again.

The popularity of second-line currencies was partly a function of deregulation, financial innovation, and the end of exchange controls.

Investment became possible in many different currencies, on many different markets, with interest rates a matter of choice for the investor. The national denomination of an investment was less important than its characteristics – yield, stability, and liquidity.

It was also partly the involvement of the Group of Seven industrialised countries in the foreign exchange markets that gave second-line currencies a new status. Co-ordinated intervention and co-operative economic policy led to a reduction in world interest rates and greater stability, and hence reduced the benefits of betting against the central banks of the hard currencies – the dollar, Deutsche Mark, sterling, and yen. The returns on high-yielding currencies were attractive, the overall market was relatively stable, and the profits on them gave traders a source of revenue at a time when other currencies seemed unprofitable.

High yields look less attractive, however, now that interest rates are rising the world over. High yields compensated for the risk of holding second-line currencies, especially where the economies were running large current account and fiscal deficits. But now that interest rates are rising in the rest of the world, relative yields need to appreciate to make the gamble worthwhile.

"In a world where hard currencies start to have value again, the case for high-yielding currencies is dubious," says Barclays de Zoete Wedd, in its latest currency review.

This is one reason why the relative attractions of the Canadian dollar, for instance, would seem less certain at a time when US interest rates are also pushing upwards. A wide interest-rate advantage is expected to keep the Canadian dollar attractive for the moment, but this may be precarious.

The central bank shows no signs of easing monetary policy but if the Federal Reserve moves, this would reduce the differential. Canadian bills are currently about five percentage points above similar US Treasury securities.

But the currency is probably near its top. BZW labels the Canadian dollar an "accident waiting to happen". The attraction of Canadian short rates is also mitigated by the economy's deceleration, and the attendant risks on the fiscal deficit.

Real yields in Australian dollars are now below those available in Europe. The Australian dollar fell dramatically following the release of bad March-quarter balance of payments deficit, reinforcing that the risk was greater than the return. High interest rates are also seen to be hurting businesses, especially exporters, but not curbing consumer spending. In this situation, all high interest rates can do is to protect the downside in the short term.

Smaller currencies can still become the focus of activity when, as earlier this month, the main currencies become becalmed. When the market was waiting for the Bundesbank to declare its intentions over policy in the light of German monetary union. This put the focus on the Australian dollar and the Swiss franc, the former because of the expectation of continued high interest rates.

The underlying calculation of risk for smaller currencies will inevitably be clouded as those with economies in structural difficulties confront the consequences of high interest rates. Where the economy has a support – the EMS, for instance – it may retain long-run attractions. The Spanish Peseta has experienced a revival of interest recently, as capital returned. It has gained strength slowly from its membership of the European Monetary System, and high interest rates have sustained buyers. in addition, there is real buying interest to support investments.

The other smaller European currencies also offer healthy alternatives, such as the Danish krone and the Italian lira. The linkage to the

☐ Toronto: interest-rate advantage is expected to keep the Canadian dollar attractive – for the moment

D-mark, even at a time when there may be fundamental reservations about the German currency's future, is an attractive alternative.

The smaller European countries have also been at pains to demonstrate their relative independence from the Bundesbank this year, with several venturing to cut interest rates, even when there is speculation of a German interest-rate rise. Effectively, the EMS currencies are proving their ability to be more than just high-yielding D-Marks.

But for many other smaller currencies outside the EMS, inflows of short-term capital may be all that sustain them. This adds to the instabilities surrounding, for instance, the Canadian dollar. When the Bank of Canada experimented with lower interest rates earlier this year, the foreign exchange markets forced rates back higher than previously.

Given the degree of financial freedom, investors will continue to chase good returns. But if real interest rates are set to continue their rise, making the grade as a second rate currency may require more than just a relative yield advantage – it may be a question of demonstrating lower risk.

Andrew Marshall

Peter Norman gives a health-check to an evolving Group of Seven, and explains why...

The weight-watchers need to keep fit

NOT SO long ago, the Group of Seven leading industrial nations looked as if it might evolve into a directorate for managing the world economy on the basis of stable exchange rates.

Now, the finance ministers and central-bank governors of the US, Japan, West Germany, France, Britain, Italy and Canada prefer to think of themselves as a "weight watchers" club.

Two or three times a year, they get together to swap notes on how each other's economy is doing. They voice concern if something appears to be going badly wrong. And, seemingly for old time's sake, they will include words to the effect that they "stand ready to co-operate on foreign exchange markets" in the communique that usually marks the end of their meetings.

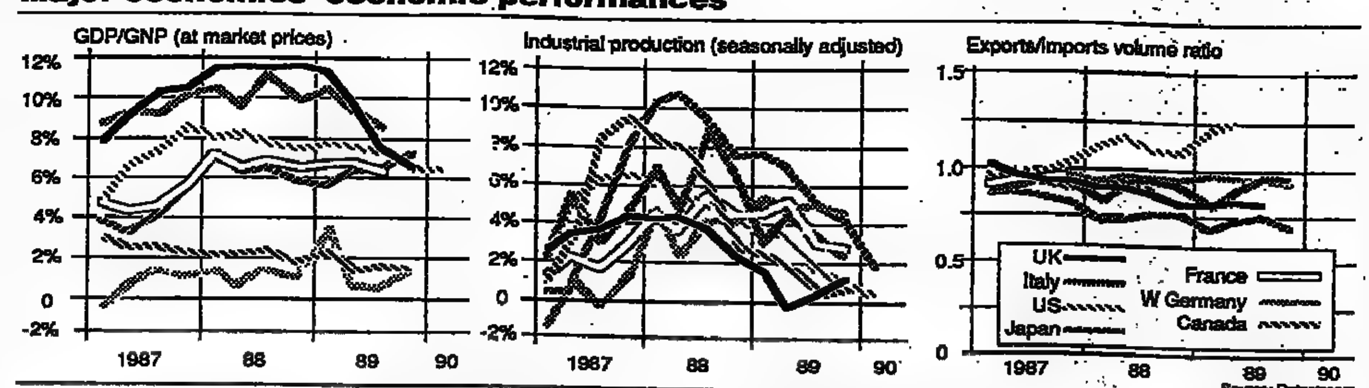
The change partly reflects political developments in the G7 countries. Enthusiasts for exchange-rate management – such as Mr James Baker, the former US Treasury Secretary, Mr Nigel Lawson, the former British Chancellor, and Mr Gerhard Stoltenberg, West German Finance Minister until early 1989 – are no longer in charge of their countries' finance ministries.

But there has also been a big change in policy priorities. Concern about inflation has superceded the will to control exchange rates that was the *raison d' être* of the G7 and its forerunner, the G5, which consisted of the US, Japan, West German, Britain and France.

Inflation is best tackled by the determined use of domestic monetary policy instruments, sometimes augmented by fiscal policy. All industrialised nations now aim to make their currencies strong as a way of shielding their economies from imported inflation.

In these circumstances, the likelihood of concerted G7

Major economies' economic performances



Source: Datastream

action to deal with a specific currency problems such as the weakness of the Japanese yen has been greatly reduced.

Concerted intervention – the hallmark of earlier G7 activity – is far less in evidence nowadays. Central banks and finance ministries argue that it is of little value in the face of a strong movement of funds into a given currency on the strength of changed economic fundamentals.

The last significant bout of concerted intervention was after the G7 meeting of September 1989, when the ministers agreed that the dollar's rise in the preceding months was "inconsistent with longer-run economic fundamentals", and that a further rise or excessive decline "could affect prospects for the world economy".

During 1989, 19 central banks co-operated to curb the dollar's strength, selling a net $75bn through foreign exchange market intervention. But the scale of intervention varied greatly from bank to bank, with the US and Japan selling more than $40bn against the Bundesbank's $4bn of dollar sales.

This year, the Bank of Japan has been left largely to rely on its own resources to prop up the yen. This is mainly because concern about the dollar has been the main spur to international policy co-ordination on exchange markets.

With hindsight, the G5 Plaza agreement was both the start and the high point of policy co-ordination on exchange markets. At that meeting, Mr Baker abandoned the US administration's earlier policy of benign neglect towards the overvalued dollar, and secured an agreement with the US's leading trading partners to push it lower.

Growing current-account imbalances, burgeoning trade protectionism in the US, faltering US growth and fears of a worsening of the Third World debt crisis meant each of the G5 nations stood to gain from the dollar's decline after Plaza.

The Louvre Accord of February 1987, in which the G7, sought to stabilise currencies, turned out to be less successful.

The Louvre agreement was intended to preserve economic growth by creating an environment of stable exchange rates to encourage investment. But it had to be sustained by massive central-bank intervention in its first year, and the associated increase in global liquidity helped sow the seeds of revived inflationary pressure in the world economy.

The later co-operative action of the G7 to steady world stockmarkets after the global crash in October 1987 proved also to be of doubtful value. The interest-rate cuts instituted after the crash cemented the G7's reputation for crisis management and may have helped rebuild confidence. But this was at the cost of giving an extra push to inflation in the industrialised countries.

In its latest annual report, published last month, Bundesbank noted with approval that the G7 now focuses its attention on pursuing agreed economic policies that aim equally at price stability and growth, rather than on intervention in the currency markets.

The evolution of the G7 into a "weight watchers" club and the downgrading of intervention as an instrument of co-ordinated policy action was well documented by this year's special April G7 meeting in Paris.

Japan came to that meeting seeking support for the yen after its sharp 13.6 per cent decline in trade-weighted terms last year, and its further 9 per cent drop in the first three months of 1990. But the other nations proved unwilling to provide more than token intervention for the Japanese currency afterwards.

Although the G7 communique said the ministers had discussed "the decline of the yen against other currencies and its undesirable consequences for the global adjustment process", they agreed to do no more than "keep these developments under review."

During the weekend of the talks, several ministers suggested that the yen's problems were primarily Japan's fault. It was said that Tokyo had failed to raise its domestic interest rates in support of the currency, while differences over policy between the Bank of Japan and the Ministry of Finance had unsettled markets.

The attitude of the Bundesbank proved decisive in ending any hopes of a support package for the yen. Mr Karl Otto Pöhl, the Bundesbank president, rejected action that might weaken the Deutsche Mark and so jeopardise West Germany's objective of pushing through economic and monetary union

The Bundesbank noted that the G7 now focuses on agreed economic policies that aim at price stability and growth, rather than on intervention in currency markets

with East Germany without raising taxes.

However, it would be wrong to write off the G7 as a spent force on the foreign exchange markets. Many still remember the costly "bear trap" of January 1988. At that time, sudden, co-ordinated central bank intervention to prop up a heavily oversold dollar forced commercial banks to cover open positions at considerable cost.

Any renewed threat to the dollar, which, for all the vicissitudes of the past two decades, remains the most important currency in the world's financial and trading system, could well see the G7 revive as a force for crisis management on exchange markets.

Forecasts for the G7 economies in 1990

Country	GNP‡	Consumer Price Inflation‡	Current Account†
Japan	4.4	2.3	2.1
W Germany	3.5	2.9	4.4
France	3.1	3.1	-0.4
UK	1.1	8.2	-2.9
Italy	3.0	5.9	-1.1
Canada	1.6	4.8	-3.5
US	1.7	4.6	-2.0
G7 average	2.7	N.A.	-0.4

Source: IMF World Economic Outlook. ‡ Percentage Change on Previous Year. † In Percentage of GNP.

Joel Kibazo explores the 'global village', where some of the inhabitants ...

Sleep with a dealing machine by the bed

FEW, IF any, of the world's leading currency strategists could have predicted the phenomenal growth in foreign exchange trading of the last decade.

A study of the foreign exchange markets by the Basle-based Bank for International Settlements, published in February, estimated that trading of foreign currencies in April 1989 amounted to $14.79bn. This figure was some 32 times greater than the figure for world trade in goods and services, which amounted to $460.9bn, in the same month.

The UK, US and Japan, ranked in that order, accounted for over 50 per cent of the trade, though the fastest growth, 140 per cent in three years, was recorded in Japan.

In September 1989, a Bank of England survey also concluded that the UK was the premier foreign exchange dealing centre, and said the average daily turnover in forex in London was the equivalent to US$187bn, up from $90bn per day in 1986. The volume of foreign currency trading in New York and Tokyo increased to $129bn and $115bn a day respectively, compared with $58bn and $48bn in 1986. The survey found the US dollar to be the dominant trading currency, followed by the yen, the Deutsche Mark and sterling.

Around 64 per cent of the total trade done by leading dealers, was in spot transactions – that is, deals made for settlement within two days' time – while 34 per cent was done in forward deals. Activity in currency options and futures amounted to little more than 1 per cent.

Analysts point to the turbulence in the dollar in the late 1970s, together with the deregulation of financial markets and the relaxation of exchange controls in a number of countries in the early 1980s, as the triggers for the growth in forex activity.

They see several reasons for the growth, with the increase in world trade said to be a major cause. This not only led to an increase in demand for foreign exchange to facilitate that trade, but in turn led to corporations involved in trade more actively managing their forex exposure, through the use of new instruments such as hedging and currency swaps.

The international banks that provided the liquidity for that trade also played their part in the expansion of forex volume, by dealing on their own account as it became plain that there were huge profits to be made in taking positions in the world's forex markets. Individual banks are reluctant to reveal the scale of their dealings.

The number of speculators simply taking positions in the market, in the hope of making a profit, also grew, adding to the overall volume.

But among the chief causes of the increase in currency dealing was the increased competitiveness, in the early 1980s, between investment institutions such as pension funds and investment trusts.

Apart from including currency transactions as part of the exercise in holding a more balanced investment portfolio, increased competition forced fund managers to regard the forex component of an investment decision separately; and

Dealing-rooms are having to stay open 24 hours

better management of that component brought increased returns to their overall investment.

As Mr Paul Chertkow, chief currency strategist at CitiBank in London, said: "Fund managers now take the currency market as paramount, especially since it has dwarfed movements in equities. Fund managers now take a more aggressive approach to currency."

An important factor in the increase in forex dealing has been the availability of real-time, high-speed dealing systems, which transcend the vagaries of time and geography and enable price movements to be seen at all dealing centres at the same time, raising the concept of the 24-hour "global village" in currency markets.

Mr Jim O'Neill, director of financial markets research and international economics at Swiss Bank Corporation, put it more clearly when he said: "We now have a market from New Zealand to New York dealing in foreign exchange without a break from Sunday night to Friday night."

Some institutions have reponded by keeping dealing-rooms open round the clock. Even for those not on duty, the dealer who sleeps with a mini Reuters dealing-machine by his side should the call come to deal in the dead of night, is a more common phenomenon than is generally believed.

More important however, dealing-rooms are having to stay open 24 hours, because of the changing relationships between clients and the banks. Mr Chertkow said: "Clients get better execution and better control if they have a relationship with one bank. At the end of the day, it is about service; tailoring the products to the client."

But Mr David Cocker, currency strategist at Chemical Bank, while acknowledging the increase in the number of 24-hour dealing-rooms, particularly in Japanese banks, believes the number is likely to remain small, because "institutions still prefer to deal where the majority of trading at any one time is located".

Increasing sophistication in the forex markets has led to an increase in sensitivity to news and events in other financial markets. Increasingly, news of activity in the bonds, equity, and futures markets spills over into the foreign exchange markets, affecting sentiment and trading.

A decision by an investor to pull out of a country's bond market could be interpreted as lack of confidence in the country's economy as a whole, thus causing a rush of sellers in the forex market. "When surprises happen, everyone tries to get out at the same time," said one analyst.

Mr O'Neill cited an example of the close relationship between the futures and currency markets in the US: "In New York, I know of people that trade spot foreign exchange on the basis of what is happening in the futures market in Chicago. They believe after London's close the futures is a safe guide."

While Mr Cocker points out that writers of traded options often protect themselves against loss by hedging in the forex markets, so that movements of the two markets are often identical.

But according to Mr O'Neill, therein also lies the problem. "The existence of screens and the closer relationship between markets has got to such a degree that the system allows access to people who don't know the risks," he said. "The market is dominated by rumours and official comment, so you get bizarre movements on bizarre factors... The existence of screens discourages people from finding out what is going on, and instead they simply react to headlines."

Even so, markets are learning to isolate "purely domestic" factors – as was shown by the recent falls in the Tokyo equity markets. These had little effect on markets in London or New York, and if anything, according to one analyst, "increased Japanese institutions' desire to go international" in a bid to hedge against further falls.

Looking at the 1990s, Mr Cocker thinks it unlikely that the phenomenal growth in forex dealing seen in the 1980s will persist. "Monetary union in Europe," he says, "will have some dampening effect on the volume as it will reduce the number of currency relationships traded."

Case study: the finance director

'We sell to the customer in his own currency'

FOR MR Alan Clements, finance director of Imperial Chemicals Industries since 1979, and due to retire at the end of the year, the daily gyrations in the world's currency markets are of more than passing interest.

With worldwide annual sales of £13.17bn, ICI is also one of the UK's biggest manufacturers; and around 50 per cent of its UK production, worth around £6bn a year, is sold abroad.

Currency movements have thus become an important factor for ICI, particularly over the last decade, as the company has extended its overseas sales.

A decision was made by the group in the 1960s to centralise all currency transactions on a company called ICI Finance, a policy which continues unchanged today.

"We believe a centralised money operation to be more efficient and we use this to see where we get the best results," said Mr Clements.

As one would expect, the size of ICI Finance's dealings in the foreign exchange markets is considerable. In 1989, the company struck around 5,000 deals in the forward and spot currency markets, and in currency swaps. The total value of these deals amounted to over £20bn, up to £30m per deal in major currencies.

Forward currency rates are the favoured instrument for the bulk of the group's UK activities. Each month, all UK businesses handling currency transactions are "given a forward rate tied to the market rate", and their receipts and payments handled by ICI Finance. "It is a case of saying that, instead of having two or three currency problems to look at, we have one big currency problem here in the UK, and there isn't anything more flexible than the forward market," said Mr Clements.

More than 50 per cent of the group's net assets are outside the UK, so it makes large investments in currencies other than sterling. Of ICI's £1.7bn portfolio, around £1bn is in currencies other than sterling. "We do not deliberately try to hedge the currency exposure we have, because we have more in the assets than the borrowings we have."

A part of those borrowings is made through currency swaps, with the group borrowing in one currency and swaping into another. Although the use of currency swaps has increased over the last few years, the ICI director takes a cautious line on their usage: "Swaps have only got to be a part of the total borrowing portfolio. If you get into a position where they are bigger than the underlying borrowing position, then one doesn't know what they are doing."

The company can at times even benefit without resorting to currency markets. In western Europe, ICI, like other chemical companies, sells its products in Deutsche Marks. These sales alone account for around a quarter of total group sales, and, with the sterling having weakened against the D-Mark for most of this year, the company should see a healthy boost to overall profits.

Alan Clements: favours a centralised money operation

Last year, sterling depreciation against the D-Mark and the dollar added another £50m to overall profits.

But Mr Clements is adamant that, even if sterling moved in the opposite direction, ICI's European sales would continue in D-Marks. "You've got to use the currency of the customer if you are to be a force in the market. We say, 'lets sell to the customer in his currency', and we take on the problem of currency."

The currency exposures arising on the group's European activities are captured in ICI Finance's Zurich treasury centre by using "factoring and re-invoicing techniques," according to ICI. Only around £100m of the ICI's profits flows back to the UK as dividends, and this amount is converted into sterling for reporting purposes at the day's prevailing rate. The rest is reinvested in the countries from which it came.

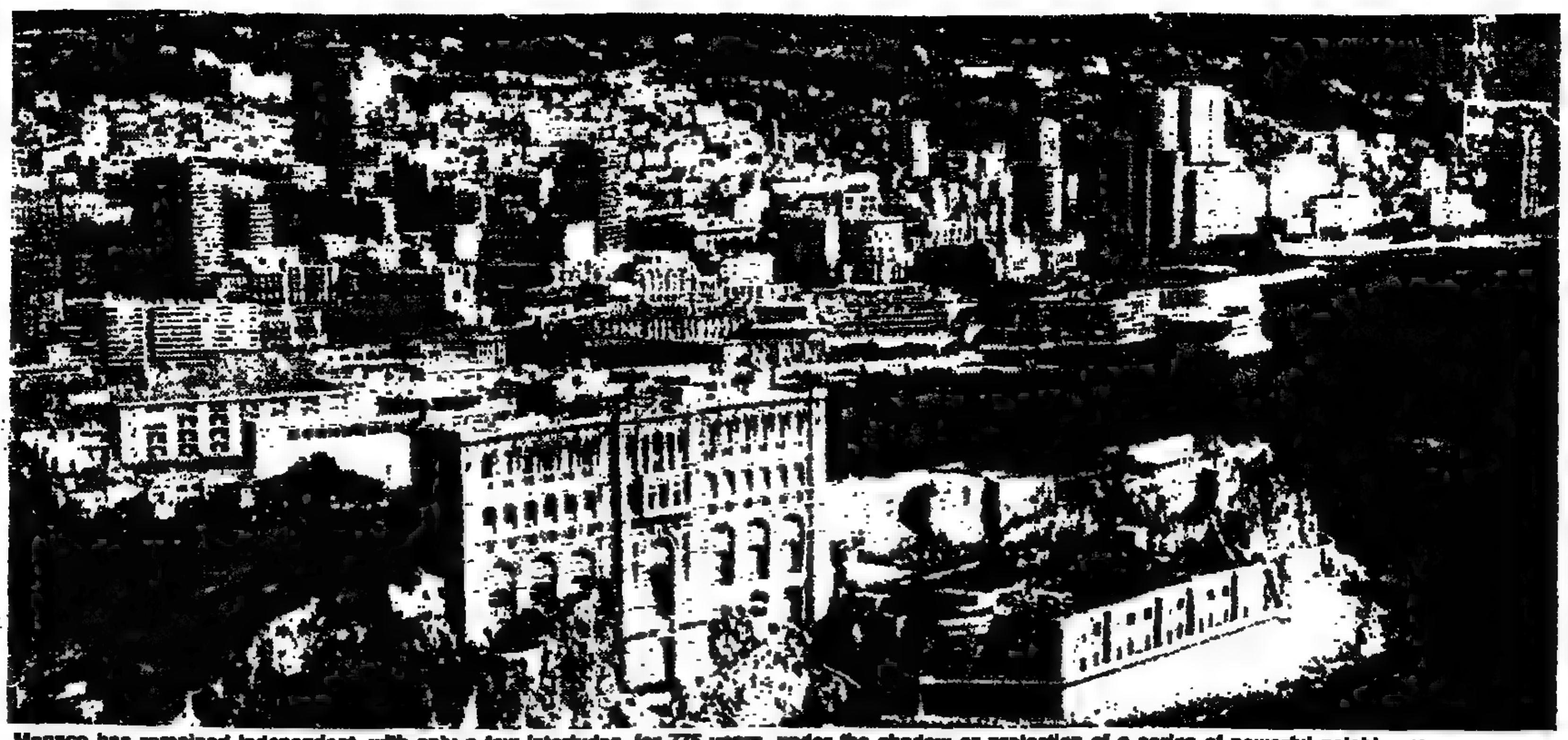
Turning to the future – although he will not be around to execute any policy changes – Mr Clements said that discussions currently centred on the "extent we can improve our appreciation and understanding of the increased volatility of currencies". In addition, ICI was also "looking at the increasing use of sophisticated products".

Joel Kibazo

SECTION IV

FINANCIAL TIMES SURVEY

With the approach of the wider European market beyond 1992, the tiny but prosperous state of Monaco faces an enigma as it seeks to adapt its relationship with France, its overshadowing neighbour, writes **George Graham**, the author of this survey



Monaco has remained independent, with only a few interludes, for 775 years, under the shadow or protection of a series of powerful neighbours.

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PRINCE RAINIER III

MONACO

France's rich neighbour

WHAT STATE has increased its territory by 30 per cent in the last 40 years but has more musicians in its orchestra than soldiers in its army?

Monaco, part booming business centre and part quaint anachronism, lends itself to this kind of riddle.

The principality faces another kind of enigma in the next few years as it seeks to adapt its relationship with France, its overshadowing but protective neighbour, to join the European economic, monetary and political union.

Monaco is not the only small state on the fringes of Europe – Jersey, San Marino, Andorra, Liechtenstein and even Luxembourg share some its characteristics – but this does not mean that it will be unaffected by the changes which symbolically fall into place on January 1 1993.

Although the Mediterranean principality is not a signatory of the Treaty of Rome, and so not a member of the European Community, it does have a customs union with France, and a tight though often ambivalent relationship with its dominant neighbour.

Monaco's inextricable links with France means its constitution makes the Minister of State or Prime Minister a Frenchman and its tax regime offers considerable fiscal privileges to French citizens.

Monaco could have been just another Antibes or Saint Tropez – a popular tourist resort basking in the Mediterranean sunshine. It is still a tourist resort – one of the most expensive and upmarket off the Côte d'Azur – and depends for a considerable portion of its livelihood on summer holidaymakers, jet-setting visitors to its Grand Prix or social galas, and conference-going businessmen.

The principality has, however, undertaken an active policy of economic development, balancing the hotels and apartment blocks of the seaside resort town and the banking activities of independent tax haven with a surprising industrial expansion.

With land so scarce and so expensive, Monaco is never going to become a major centre for heavy manufacturing, but industry, especially cosmetics, pharmaceuticals and plastics, accounts for over a quarter of the country's business activity.

Fontvieille, 22ha of new land almost completely reclaimed from the sea to the west of Monaco old town, was crucial to this development. Fontvieille represents the largest of the public works undertaken since Prince Rainier's accession in 1949.

It is not its size that makes it important as much as its use as a public policy instrument: to provide space for lower income housing and for industrial and commercial premises.

A mix of activities

"We believe it is useful to have a mix of activities. Monaco had the reputation of living off the Casino. But although that has not been true since 1936, our industrial side is still little known," says Mr Jean Pastorelli, counsellor to the Government for finance and the economy – the equivalent of the principality's finance minister.

This diversification brings its own complications.

Value added tax (VAT) on these new industrial and commercial activities represents the largest source of revenue in Monaco's FFr2.6bn state budget. The VAT rate is tied by tax convention to that charged by France and with the harmonisation of EC tax policy in the run-up to 1993, this rate appears set to go down.

A rate-cut might lower government revenue and thus force tighter control of spending but Mr Pastorelli says this would not endanger the principality's FFr1bn public works plan. He adds that any short-term decline in VAT receipts will probably be offset in the long run by the stimulus to economic activity resulting from the lower tax rates.

Monaco is justified in anticipating such a boost to its revenues as a result of its expanding business activity. Along with Sophia Antipolis and the Var valley, the principality is among the most dynamic economic zones of southern France.

"In 1989 and 1988 we created 1,400 net new jobs each year so we are an economic magnet for the surrounding region," says Mr Bernard Fautrier, counsellor to the Government for public works and social affairs.

This economic buoyancy helps to reduce any friction there might otherwise be between the privileged Monegasques and their French neighbours.

Monaco's law obliges local employers to offer jobs first to the principality's citizens, then to its residents, and then to the inhabitants of the four neighbouring French communes, before they may look further afield.

Monaco's active workforce is almost the same size as its resident population – 27,063 at the last census. Of this total, about one third comprises residents, another third come from neighbouring communes and a third from further away in France and Italy.

As well as preferential employment opportunities, the 4,481 Monegasque nationals also enjoy special housing subsidies, yet they – and even more, the "children of the country" or long-time residents who do not have Monegasque nationality – still suffer from the shortage of affordable apartments within the principality.

They can also suffer from the difficulty of finding enough challenging job opportunities within their home country.

"A number of Monegasques have difficulty not in finding a job, but in finding a job that suits their educational qualifications and their abilities," comments Mr Stéphane Valéri, chairman of the Federation of Young Monegasques.

At the same time, Monegasques have to live down a poor reputation with employers, who often say they find them lazy and too sure that they cannot be fired.

Mr Fautrier says many Monegasques prefer to be employed by establishments which guarantee their jobs, such as the administration or the SBM, the state-controlled company which runs Monaco's casinos and most of its hotels.

New measures

He adds, however, that new government measures to encourage people to create their own businesses seem already to be having an effect among younger citizens, although only an estimated 3 per cent of the principality's companies are so far controlled by Monegasque nationals.

"Monegasques are deeply attached to their country, and we are conscious of being very lucky to be born here, but if we cannot create new enterprises we won't be able to keep people here," says Mr Valéri, who founded his own advertising and public relations company two years ago.

Monaco is a haven of security both to the visitor, who may cross the road without being run down, and to residents like Mr Pastorelli, who must be one of the few finance ministers in the world who can safely take the public bus home to lunch.

It is not, however, only the principality's large and visible constabulary that contributes to a feeling of being policed.

"Monaco has its ways of behaving. It's a club, and you have to accept the rules," comments one resident.

The club sometimes seems to close its eyes to problems, such as the collapse earlier this year of the Banque Industrielle de Monaco (BIM), the SBM's embarrassment with a failed Paris stockbroker, or the recent change in the top officers of Monaco's police force. These scandals, however, may not have appeared so striking were it not for Monaco's carefully nurtured image as a haven of security and respectability.

The club also seems to have a similar sort of reluctance to talk about the changes in Monaco's political and economic context that must spring from the changes in the structure and treaties of the European Community – "all our clients ask us what will happen in 1992, but we don't have any answers. The Government's attitude is that it is better to think about it than to talk about it," complains one banker.

Prince Rainier has mentioned the likelihood of Monaco having to review some of the technical aspects of its accords with France and the EC but his Government generally seems unperturbed by the changes of 1993.

It would mean little more than modifying the rules on mutual funds to fall in line with new EC norms and lowering the duties it charges on auctions in order to safeguard this lucrative sideline.

Monaco has remained independent, with only a few interludes, for 775 years, under the shadow or protection of a series of powerful neighbours, including the Holy Roman Empire, Spain, Sardinia and now France.

Europe may change around it, but Monaco seems likely to adapt to whatever new circumstances arise.

Expanding range of financial services

Banks in abundance

FOR a country with a population of only 27,000, Monaco boasts an impressive number of banks: 38 different banks are represented, and there are fewer than 400 inhabitants for every bank branch, compared with an average of 1,800 in the French department of Alpes-Maritimes which surrounds the principality.

Yet more banks are arriving all the time. Duménil-Leblé the French financial services company now controlled by Mr Carlo de Benedetti's Cerus, is opening up, as is Belgium's Générale de Banque, while Spain's Caixa de Pensions last year took control of Socrédit, a Monegasque bank founded in 1953.

Two recent arrivals fill a surprising gap in Monaco's financial community by bringing the first German banks. A German bank had asked for a licence to open three years, ago, but was refused because the authorities wanted at least two banks from the country to open at once, in order to maintain competition.

Now, Bayerische Vereinsbank, in partnership with the French Banques Populaires grouping, last month inaugurated a new subsidiary in Monaco, Banque Internationale de Cre<aa>dit et de Gestion Monaco (BICGM), while United Overseas Bank Geneva, a joint venture between Dresdner Bank and France's Banque Nationale de Paris (BNP), has agreed to buy Société de Banque et d'Investissements (Sobi) from Barclays Bank of the UK.

Barclays is not at all disenchanted with Monaco, where it is the largest non-Monegasque or French bank, but its executives say Sobi, which handles principally mortgage business, duplicated the functions of its other Monaco branches – including one of the most coveted sites in town, just across the Jardins des Boulingrins from the Casino – and of its Paris mortgage bank, Scam.

The largest banks are Crédit Foncier de Monaco, the oldest Monegasque establishment, now 70 per cent controlled by Banque Indosuez, the French investment bank, and the three main French retail banks: BNP, Crédit Lyonnais and Société Générale.

"Probably 65 to 70 per cent of our clients are non-Monegasques, and 80 per cent of our assets are in term deposit accounts, where other regions would have 80 per cent in current accounts," says Mr J.A.Sauzier, director of the Monte-Carlo branches of Société Générale.

Monaco offers considerable advantages as an offshore banking *centre to non-residents*, with the exception of French citizens, who since the conventions of 1963 are treated as though they were still in France.

Like the Channel Islands or Luxembourg, Monaco offers freedom from exchange controls, transaction duties, income or capital gains tax, although it does have inheritance taxes, unless the succession is in direct line from parent to child or between spouses.

Most banks have the bulk of their clientele among citizens of their country of origin, but some bankers believe too little effort is made to drum up custom elsewhere.

"Demand is not passive, you have to be active and go and seek clients in other countries. People go spontaneously to Luxembourg or Geneva for banking services, but they will not come spontaneously to Monaco unless we spread the word," says Mr Joseph Benkemoun, who has 20 years of private banking in Monaco behind him but now heads Pallas Monaco, set up a year ago to specialise in asset management.

But as more and more international banks set up in Monaco, they bring business with them from their home countries and expand the size of the Monegasque banking market.

"Twenty years ago, when there were 17 banks here, I told someone that there was easily room for ten more. Today, with 38 banks, I still say there is room for ten more," says Mr Benkemoun.

Some groups, like Compagnie Monégasque de Banque – controlled by Banca Commerciale Italiana (BCI) and Banca della Svizzera of Lugano – have developed a broader range of financial activities extending beyond the principality: bond and equity market dealing, underwriting and corporate finance.

"*It doesn't apply only* to Monaco, but experience shows that a small boutique can always find something to do with even the largest companies. If you jump on a plane and provide a quick response, you can take a slice of the cake," says Mr Jean-Claude Eude, executive vice-president of Compagnie Monégasque de Banque. Mr Eude adds that customers are often pleased to come to Monaco for the closing of a deal. This outward expansion brings a tax penalty, for companies based in Monaco escape corporation tax so long as at least 75 per cent of their activities are carried on inside the principality. Some other banks which come close to the limit will voluntarily restrict their activities, while others choose where possible to handle business from nearby agen*cies in France.*

"We have been outside that limit for a long time. We just have to accept that we pay 35 per cent corporation tax," shrugs Mr Eude.

Although more and more banks are opening up in Monaco, one Monegasque bank has had to close down, after a sorry tale of fraud, foolishness and suicide.

Banque Industrielle de Monaco (BIM), principally owned by Princess Isabelle de Bourbon Parme, was officially closed down in February after the French Banking Commission, which also supervises Monegasque banks, had stepped in to appoint an emergency administrator, Mr André Mouillon.

He discovered "irregular operations coupled with inexact declarations and dissimulations, finished off by bad management."

He said the bank had "with an inconceivable frivolity placed an abusive degree of confidence" in its principal debtor, Mr Jean-Marc Faure, founder of a chain of franchise clothes shops named "Un bruit qui court."

Bankers in Monaco say that the BIM was also running a sizeable business in bearer deposit notes, held by Monegasque citizens as cat's paws for French residents seeking to evade tax.

The size of the deficit has been estimated by some French newspapers at up to FFr500m, but bankers in Monaco put it closer to FFr180m.

Mr Jean Ferry, a senior BIM executive, committed suicide in February, while Mr Jean Colcy, the bank's chief executive, was arrested by French police in Nice in March.

Everyone in Monaco agrees that the BIM was a complete exception among the principality's banks.

Some bankers say that BIM was not the only bank to abuse the practice of bearer deposit notes, and they expect the Monegasque government as well as the French Banking Commission to tighten up their surveillance.

Monaco's bankers and authorities hope that the affair will not have tarnished the principality's carefully fostered reputation as a "clean" banking centre, where respectability is encouraged and every effort is made to prevent the laundering of drug money.

Prices for new apartments have risen to between FFr70,000 and FFr100,000 per sq. metre in the past year.

PROPERTY

Prices spiral upwards

MONACO has never been a cheap place to buy property, but over the past year, prices have begun to spiral upwards into realms that would be viewed in most other parts of the world as astronomical.

"The principality has had a big, big boom. In the last six months, prices have risen by at least 30 to 40 per cent, if not 50 per cent," says Mr Raoul Boni, of the Agence de la Gare property agency, chairman of the Monegasque Real Estate Association.

A stroll around the town does not at first convince the visitor that there is any shortage of property. There are advertisements on every street corner for new apartments in buildings like the Seaside Plaza – of which only the first of three buildings is yet on the *market – the Rosa Maris or* the Prince de Galles. Apartments in the new Metropole Palace Hotel building went on sale in January, and there are a number of other developments such as the Perigord III or the Beverley Palace in the pipeline.

Sites for new development are extremely scarce

The Prince de Galles, however, is still a hole in the ground, while the Rosa Maris, though not yet beyond the ground floor, is already 80 per cent sold.

"At the moment we have a potential of 35 to 50 new apartments ready to come on to the market, which is one quarter's supply," says Mr Boni.

The result is that prices for new apartments have risen to between FFr70,000 and FFr100,000 per square metre – though the top of the market is inflated by a very small and exceptionally sited development which will put only 7 apartments onto the market.

This is not the first time that prices have risen at this sort of speed in Monaco, for the principality is so small that property will always have a certain rarity value. Mr Boni recalls that new apartment prices climbed from FFr1,500 per square metre in 1959 to FFr2,470 in 1960; from FFr3,000 a square metre in 1971 to FFr6,000 in 1975; and from FFr9,000 per square metre in 1980 to FFr20,000 in 1983.

The latest surge, however, appears particularly vertical.

Other Monaco real estate agents, however, feel that the situation is now merely reverting to normal – "we have always lived like this with a supply very tight," says Mr Michel Dotta of the Brémond Dotta agency.

"People say they are surprised by Monaco property prices, but I am surprised by Paris prices. We used to be structurally at twice Paris's property price level, which is normal, given the rarity of land here," he adds.

Mr Dotta points out how unusual the situation was in 1982. When demand turned down worldwide, developers were left with excess stock, but because the cost of the site is such a large proportion of the cost of a building in Monaco, they did not stop construction, as they did in London or Paris. The end result was an unusually saturated market, dampening prices for some years.

Now with the market back in its normal position of under-supply, developers have begun again to speculate on the few possible construction sites that remain within Monaco's 195 hectares.

Sites are particularly scarce now that the development of Fontvieille, the new area reclaimed from the sea in the 1960s and 1970s, is almost complete.

Commercial property remains more modest in price, although even here, Monaco's small size means that those who want to set up shop in the principality have to offset any tax savings they might make against their office rents.

Modern offices now usually rent for FFr1,600 to FFr1,800 per square metre, though there are well equipped, air-conditioned offices in Fontvieille on offer at FFr1,200. Estate agents estimate that around 30,000 square metres of office space is *currently available.*

Agents say that in the last few years residential demand has shifted away from the studios and two-room apartments that are usually sought by investors towards three- to five-room apartments, bought by people who actually intend to live in them – at least part of the time. Property retains a particular investment interest for French citizens, for it is virtually the only legal way in which they can take advantage of Monaco's tax privileges.

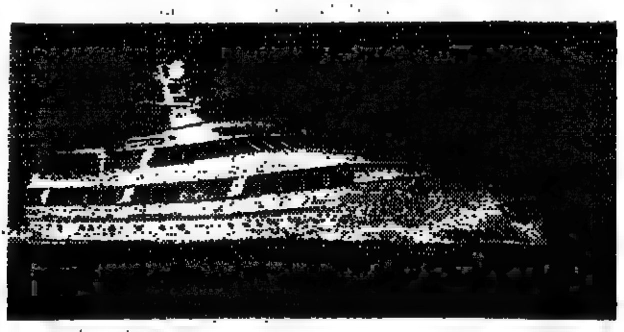
Since 1962, when General Charles de Gaulle lost his temper with Monaco's continued existence as a tax haven, French citizens are taxed exactly as though they were still in France. If a French citizen inherits a property in Monaco, however, he or she will be covered by Monegasque inheritance taxes – ranging from nothing at all for a direct inheritance from parent to child or between spouses, to a maximum of 16 per cent if there is no family relationship at all.

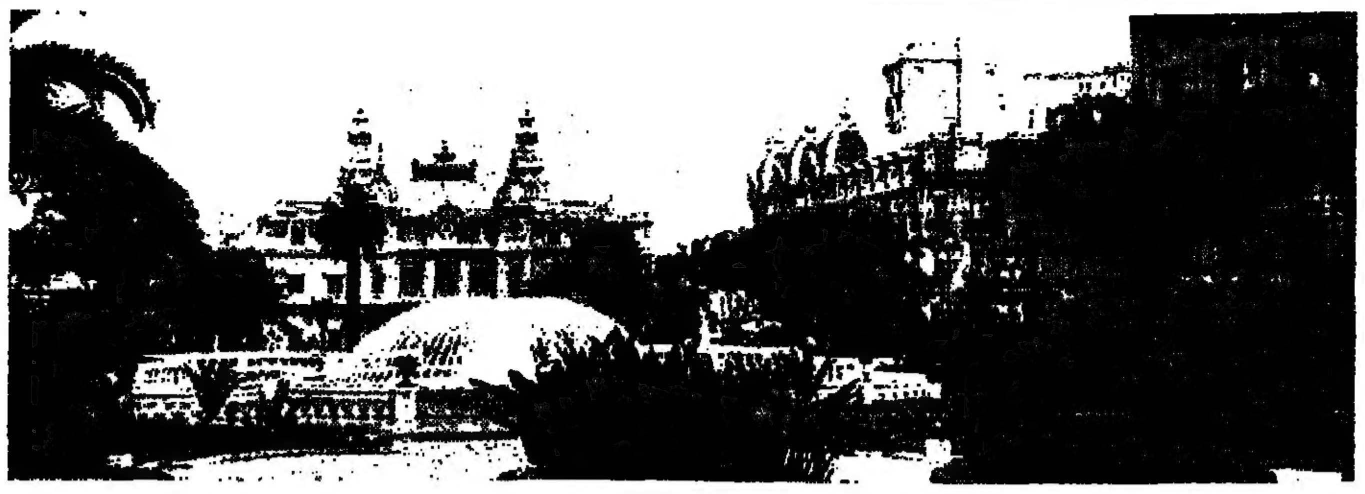
A number of large French fortunes have in recent years used this loophole to avoid French property taxes, although their property in Monaco would still be subject to France's annual wealth tax.

Monaco's steep property prices create problems of another sort for its inhabitants. Monegasque citizens who cannot obtain one of the reduced rent apartments which the government has built in Fontvieille are entitled to a rent subsidy, or to help with a loan to buy an apartment.

"It is true that prices are high, though they are similar to other towns on the coast with the same profile, and they are similar to some districts of Paris. In every agglomeration there is a centre and a periphery, but the problem is complicated in our case by the fact that between the centre and the periphery, there is a frontier," says Mr Bernard Fautrier, minister for public works and social affairs.

He adds that there is now some discussion of what to do about rents, and although the government has no intention of re-introducing a restrictive rent control system, it might consider some form of regulation of the length of leases.

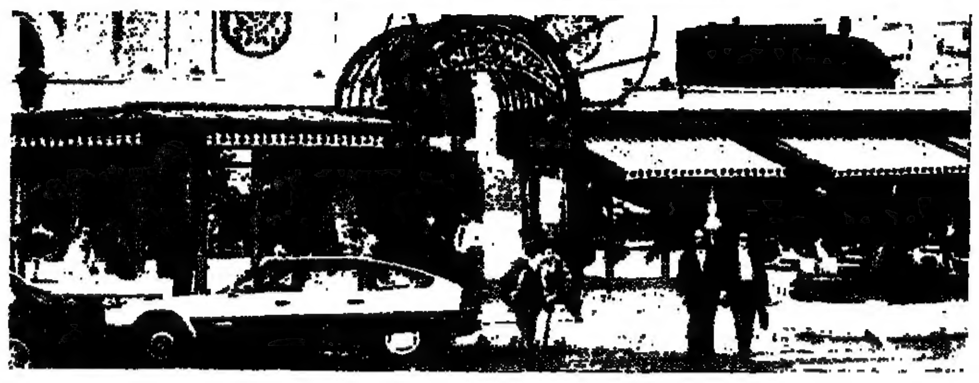




■ Pictured left: Prince Rainier (centre) with Prince Albert and Princess Caroline, congratulate Alain Ducasse, top chef at the Louis XV Restaurant, who won his third Michelin star this year.

■ Top right: a view of the famous Casino at Monte Carlo, the building which competes with Prince Rainier's palace as the central attraction in Monaco.

■ Lower right: the refurbished and bustling Café de Paris, opposite the Casino, has new facilities for American games and slot machines.



The casinos and hotels operated by the Société des Bains de Mer are forging new international markets

Resurgence of traditional gambling activities

PRINCE RAINIER'S palace crowns Monaco old town on the rocky hill above the Condamine port, but on Monaco's other hill, Monte Carlo, it is the Casino which dominates.

It has been many years since Monaco ceased to depend on gambling revenue to finance the state budget.

But there remains a close relationship between the principality's Government and the Société des Bains de Mer et du Cercle des Etrangers à Monaco, or SBM – the company which manages Monaco's casinos, most of its hotels, and the bulk of its sporting, social and cultural activities.

Since 1966, the SBM has been 70 per cent controlled by the Monegasque state – a decision which Prince Rainier, in a speech last year celebrating the 40th anniversary of his accession to the throne, singled out as one of the three major events of his reign.

"I am convinced that this was an action of essential significance, both because of the privileged place which this company enjoys in the economic, social and cultural life of Monaco and because of the importance of its activities for employment," he said.

Although the SBM lives in symbiosis with Monaco, however, it also inhabits its own world, partially closed off from the principality which surrounds it.

Visitors to Monaco can spend their entire stay without ever setting foot outside SBM premises.

The company, in fact, owns one-twelfth of Monaco's total surface area.

The idea of an enclosed world follows the original plan of Mr François Blanc, the pioneer of luxury tourism, who formed the SBM in 1863. It was he who placed Monte Carlo on the international map, for a complex of hotel, casino and restaurants linked by a tunnel.

You can still pass by tunnel from the Hotel de Paris to the Hotel Hermitage, by way of their joint swimming pool on the terraces overlooking the sea. But an aerial view will give you a more complete picture of the SBM properties.

From the seaside at the Monte Carlo Beach Hotel, just over the border into France, to the tennis courts of the Country Club; to the nightclubs at the Sporting Club on the Larvotto peninsula to the Opera inside the main casino building, the visitor can accumulate a matching set of SBM bills.

SBM's net profits modestly advanced to FFr22.8m in 1987-88 to FFr35.2m in 1988-89

You can even eat well, which, to the shame of the town where Escoffier cooked, has not always been true.

At the bustling Café de Paris opposite the Casino; at the roof-top grill of the Hotel de Paris, where Mr Bruno Caironi won his first Michelin star this year; or at the Coupole in the Mirabeau Hotel (managed, although not owned, by the SBM), where Mr Yves Garnier has held a Michelin star since 1986.

Since March, Monte Carlo has boasted the ultimate in French gastronomic honours – a third Michelin star for Mr Alain Ducasse, the 33-year-old chef of the Louis XV restaurant, located on the ground floor of the Hotel de Paris.

Three years ago the SBM started to look for a chef who could win three stars. But Mr Raoul Biancheri, the company's chairman and chief executive, claims little of the credit for the success.

"We just gave him some fancy crockery – he makes the dishes," he says.

"Ducasse's three stars are very important for Monaco. A few years ago, gastronomy was a weak point for us, and indeed for the whole of the Côte d'Azur," adds Mr Gilles Noghès, managing director of the Monaco Government Tourist and Convention Authority.

Success has not always come so smoothly to the SBM, however, and the 1980s have seen moments of difficulty, with a decline in business in the period from 1982 to 1986.

Gambling receipts fell, while lower occupancy of the big SBM hotels, traditionally viewed as something of a loss leader to draw casino clients, increased the deficit in this sector.

The main Casino lost FFr12m in the year to March 1985, FFr30.7m in 1985-86 and FFr15.2m in 1986-87.

Although this was offset by stable profits from the casino run by the SBM at Loews Hotel – steadily running at about FFr36m a year from 1984 to 1989 – a plunge into losses on its hotel activities trimmed the SBM's total operating profits from FFr48.9m in 1984-85 and FFr37.7m in 1985-86 to FFr18.5m in 1986-87.

Since then, the traditional gambling activities have taken off again.

The main Casino complex made a profit of FFr26m in 1987-88 and leapt to FFr92.5m in 1988-89, thanks partly to the July 1988 re-opening of the Café de Paris with a new room for American games such as blackjack and craps, as well as slot machines.

The SBM plans to build another casino next to a new hotel in the next three years

The SBM's hotels continued to lose money heavily in 1987-88, but trimmed this loss to FFr3.7m in 1988-89.

Mr Biancheri says they are now making a modest profit.

All in all, SBM's operating profits climbed back to FFr66.3m in 1987-88 before nearly tripling to FFr145.8m in 1988-89. Nevertheless, net profits advanced more modestly, from FFr22.8m in 1987-88 to FFr35.2m in 1988-89, due in part to an accelerated write-off of investments in sports facilities and partly to FFr53.3m of provisions, including FFr25m for gambling risks as well as the write-off of a loss incurred by the collapse of the Paris stockbroking firm Baudoin, with which SBM invested.

These financial ups and downs in recent years have not prevented the SBM from heavily investing in its property portfolio. This includes the reconstruction of the Café de Paris, modernisation of the rooms at the Hotel de Paris and the Hotel Hermitage and the overhaul of the Sporting Club casino.

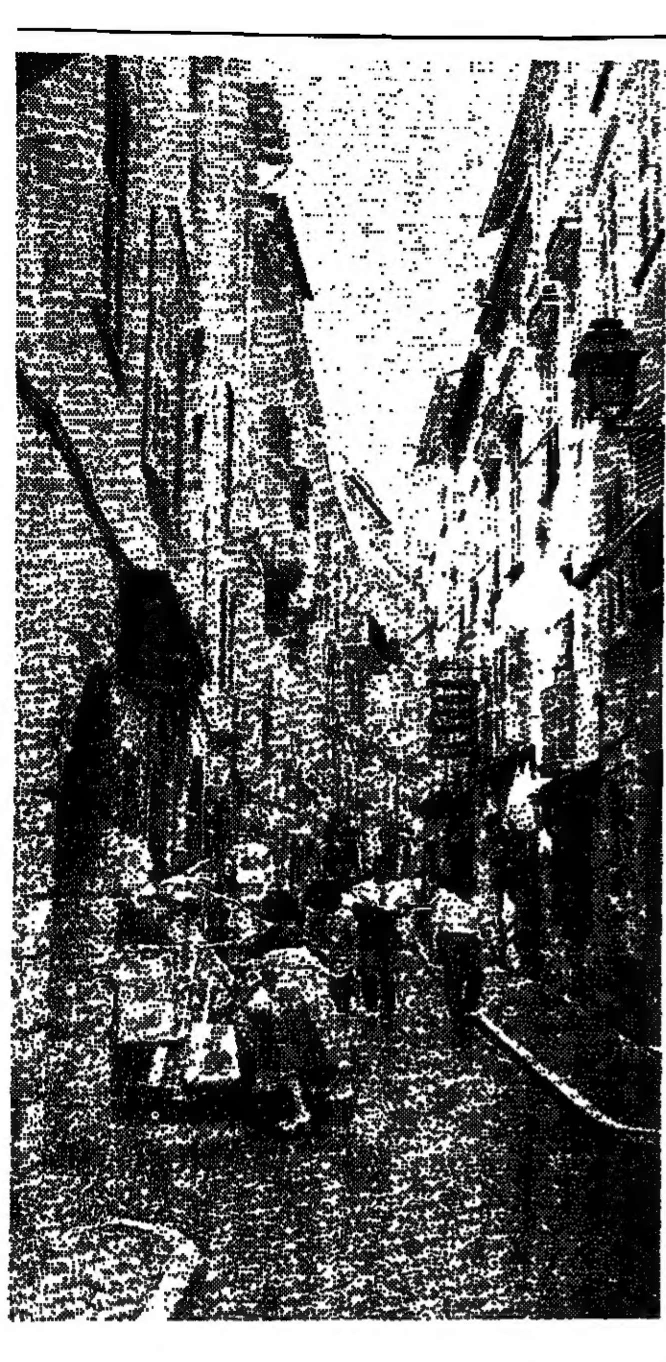
"We try to repeat, even more beautifully, the styles we already have, but a little bit more modern – like hairdryers in the bathrooms at the Hermitage," Mr Biancheri explains.

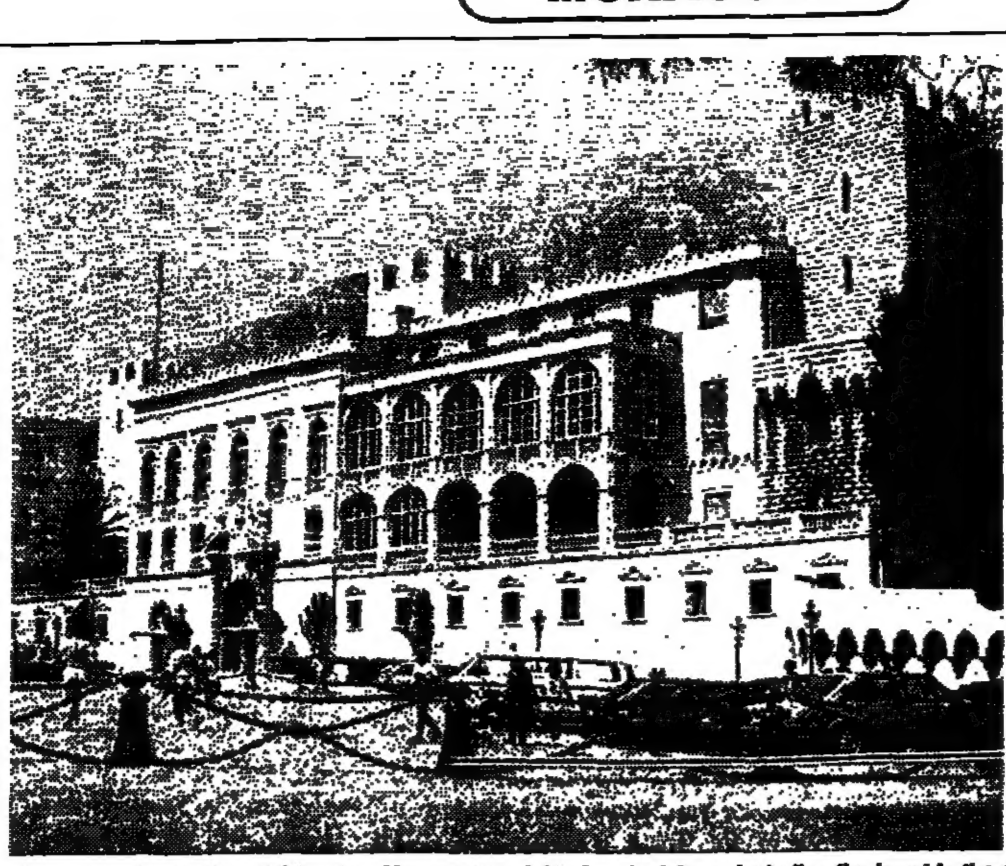
The SBM is now going on to its next major project: the construction of a new 400-room hotel and adjoining casino for American games at the foot of the Larvotto peninsula, next to the Sporting Club, which already has a casino for European games such as roulette and chemin de fer.

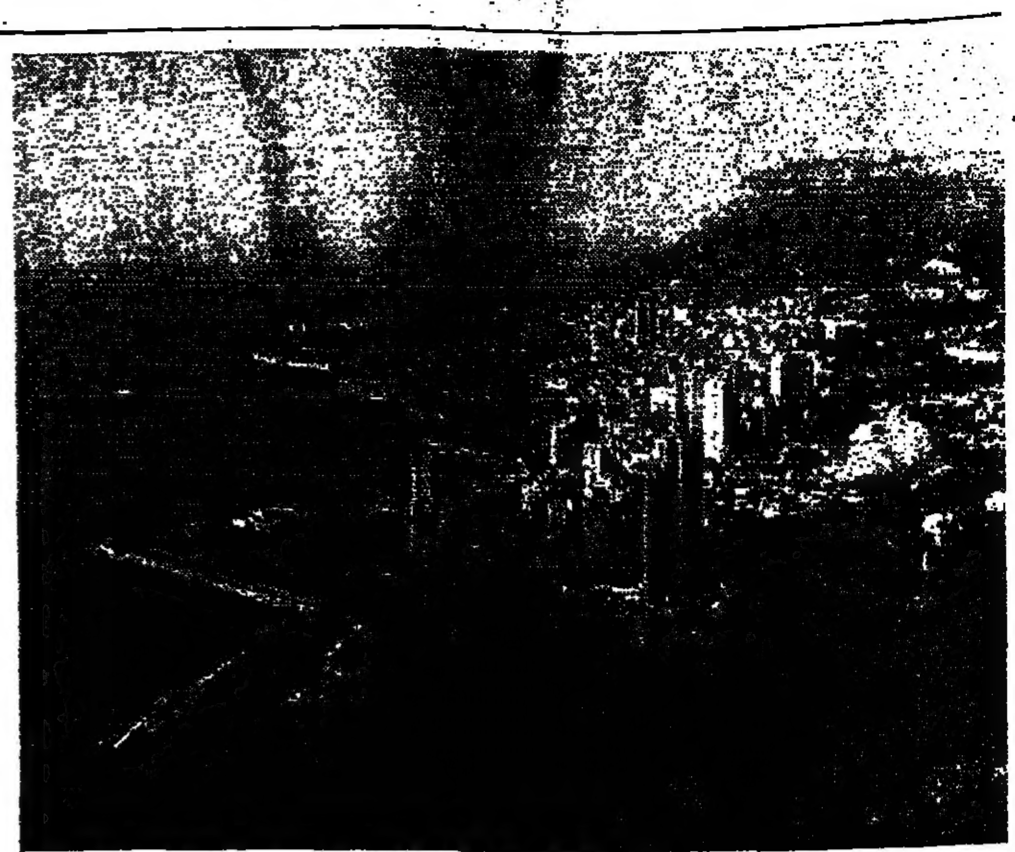
The company is expected soon to grant an emphyteutic lease to a Swiss financial group for the construction of the hotel, which could begin in October and be completed in three years time. The SBM will build the new casino itself.

Mr Biancheri wants the management of the new hotel to be entrusted to a major international hotel group.

"The problem in occupancy. We don't want simply to transfer clients from our existing hotels, and we think an international network will be able to seek new customers," he says.







From shopping (left) to sightseeing, Monaco has sights for all visitors, including the jewel in the crown — Prince Rainier's palace (centre).

Tourism development has shifted its emphasis in recent years to attract business visitors

Conferences, trade fairs gain ground

MONACO is intent on maintaining the image it has built since the establishment of Monte Carlo as a top-of-the-range tourist destination in the second half of the 19th century.

This has meant adapting to changes in people's habits since then. For example, the high season in Monaco is now the summer, not the winter, and the principality has to cast its net further afield than the pages of Debrett or the Almanach de Gotha.

But Monaco preserves a reputation as a place where the very wealthy can stroll around in their diamonds and furs, without being robbed or being trampled by hordes of tourists.

"I would say that safety, cleanliness and decorum, in that order, are the three main charms of Monaco," says one long-term resident.

The principality's tourism statistics present a slightly different picture.

Occupancy of the principality's 2,400 hotel rooms, which averaged 68 per cent in the first half of the 1980s, plunged to 55 per cent in 1986.

It has since recovered somewhat, to reach averages of 61.5 per cent in 1988 and 61.6 per cent last year.

Even in the peak summer months, Monaco's hotels are far from bursting point.

Last year, occupancy reached 67 per cent in June, 64 per cent in July and 73 per cent in August.

To counter this, Monaco has an active policy of seeking to draw new visitors and to spread their visits more evenly throughout the year.

This has been done both by the development of business tourism – through conferences and incentive travel – and by the creation of special attractions – such as ballets and operas, auctions, Formula One car races and tennis tournaments, or charity balls and social galas.

"We have two elements to help us regularise the occupancy of hotels: congresses and the creation of events," says Mr Gilles Noghès, managing director of the Monaco Government Tourist and Convention Authority.

Room occupancy is in fact highest in May (77 per cent) and September (81 per cent) when special events and conferences combine with the summer season to fill up the principality.

The development of Monaco as a congress centre began as early as the 1960s, but did not take off until the opening of the 600-room Loews Hotel on the seafront in 1975 – at the time the largest hotel on the Côte d'Azur – and the inauguration of the Centre de Congrés-Auditorium in 1978.

Congresses now account for around 30 per cent of Monaco's tourism.

The list includes a few professional organisations, but the principality attracts mostly company conferences and product launches with up to 1,000 participants.

Mr Noghès is confident, however, that Monaco will be able to extend its appeal in the future when the new Centre Culturel et des Expositions, under construction on the Avenue Princesse Grace, near the Larvotto beach, opens at the end of 1994 or the beginning of 1995.

The centre will boast a 1,200-seat auditorium and a 900-seat amphitheatre, as well as six smaller halls. Most importantly, it will offer 4,800 square metres of exhibition space.

"The centre will help us to develop our business tourism, and in particular trade fairs.

"The present Congress Centre has hosted a lot of trade conferences, but it does not have the space for big exhibitions," Mr Noghès explains.

"By tradition, and by its hotel rooms, Monaco is at the top of the range.

"Over 80 per cent of our rooms are in the four-star or five-star luxury category. We have to seek this top-of-the-range image as much for congresses as for leisure tourism," he adds.

The creation and promotion of special events is the other way Monaco boosts tourism when visitors might not otherwise think of coming.

"We have to compromise. We might like to have our events in flat periods, but we also have to arrange them in periods when people are available," says Mr Raoul Biancheri, chairman and chief executive of the Société des Bains de Mer (SBM), the leading operator of casinos and hotels, which sponsors many of Monaco's best-known events in its halls, theatres and sports arenas.

Some events have been established on the calendar for years. The Grand Prix will be raced for the 48th time on May 27, and the 58th Monte Carlo Rally was run this year.

More recent additions to the Monaco calendar are the Fireworks Festival, now 25 years old, and the Circus Festival, 15 years old. The Tennis Open is younger still.

"The events serve two functions – to fill the hotels, and to provide publicity for the principality and for the hotels. The Bal de la Rose is an event for Monaco and for the SBM. I can't say that all our events make money. Some break even, others cost us a bit," Mr Biancheri explains.

The increase in top class hotel capacity includes the 200-room Abela in Fontvieille and the 170-room Metropole

Monaco has also made considerable efforts to simplify access for hurried travellers – an important consideration, since the average length of stay has fallen sharply to around three nights.

The heliport, on the seafront in Fontvieille, plays an important role. More than 110,000 passengers used the service to and from Nice airport last year. The journey takes seven minutes and, for a single traveller, it is cheaper than a taxi.

More leisurely means of access, however, are also being promoted. Mr Noghès is keen to develop Monaco as a centre for luxury cruises, with vessels like the Norwegian-registered Sea Goddess I and II, or the Bahamian sailing yachts Wind Spirit and Wind Star operating from the principality. He also hopes the Orient Express will be able to stop in Monaco.

If Monaco's hoteliers are concerned about their room occupancy rates, they appear paradoxically calm about the increase in hotel capacity.

This includes the 200-room Abela in Fontvieille, and the 170-room Metropole, which opened in January only a stone's throw away from the Casino, in a position to directly compete with the Hotel de Paris or the Hermitage.

Mr Nabil Boustany, who spent eight years and $120m rebuilding the Metropole, feels that there will be no problem of excess capacity, even when the new 400 room hotel to be built on the Larvotto peninsula opens around 1994.

"I had expected to be in the red for one or two years before we started to break even. In fact, we are breaking even already, and have not had a single month in the red," he says.

Mr Boustany had originally hoped to build his luxury hotel in Ashrafieh, in his native Beirut – possibly an even more beautiful site than Monaco, but ravaged by war.

Instead, he has lavished every attention on building a splendid marble palace in Monte Carlo, often overruling his partners, Conrad International, a subsidiary of the Hilton Hotel group, to equip it in keeping with his taste.

"They wanted me to put stainless steel cutlery in the brasserie. I refused and bought Christofle instead, and I bought Limoges china, not Far Eastern," he says.

Mr Boustany says the Metropole has already begun to win a share of the conference trade, and he sees no reason why it should not achieve 70 to 80 per cent occupancy next year.

Mr Biancheri of the SBM also believes that Monaco can continue to extend its clientele, possibly among wealthy Japanese who in the past have gone to Europe, usually on tours.

"It is not a question of finding thousands of new clients, just a few dozen in each country," he says.

Besides the 245,000 visitors who spent the night in Monaco last year, the principality also receives around 3m day trippers. With them the problem is inversed: so that the Government has to find ways of managing the flows so as to prevent saturation.

"The Government attaches considerable importance to giving a good welcome to day trippers, to improving the movement of tour buses and channelling the flow of visitors. We have to find daily solutions so that there is no friction between day trippers and longer-stay visitors," Mr Noghès says.

Public works give priority to making optimum use of land

Man-made island solution

THERE is no escaping the fact that Monaco is very, very small. This is true in the social sense – Monegasques and Monaco residents form a tightly-knit and closely supervised community – but it is also physically true.

Roads that zigzag up the cliff face, crossed here and there by staircases and public lifts, reinforce the message that every square foot counts.

With an area of 195ha, squashed between the mountains and the Mediterranean Sea, Monaco is always on the lookout for ways of winning a few yards of valuable territory here or there: by burying service functions such as parking lots or sewage treatment underground, or by extending its surface out to sea.

At the same time, Prince Rainier's Government has been keen to preserve a reasonable green space free for public parks and gardens.

Heavy state investment, running at around FFr1bn out of a total annual state budget of FFr2.7bn, has allowed Monaco to increase its size by 30 per cent in 40 years. This includes reclaiming under-used surfaces and building new polders extending into the sea.

The effort started in the 1950s, with polder work in the Portier and Larvotto areas, in the eastern part of the principality, reclaiming 9ha from the sea.

The most important project, however, started in 1965 and involved the creation of the Fontvieille area – 22ha of new ground to the west of the rocky promontory on which sits Monaco's palace and old town.

The operation meant working 30m to 40m below sea level, a world record until a recent development at Sines in Portugal. The groundwork on Fontvieille was completed in 1971 and it has since been the focus of the Monaco Government's efforts to build up local industry.

Along with the construction of industrial workshop space, Fontvieille is also the site of the Monaco helicopter port, a new football stadium, housing aimed at lower-income Monegasques, as well as a marina and the new Abela Hotel.

"Fontvieille is finished as far as the state is concerned, and in a few years all the private promoters will have finished. The only opportunity left on land is the railway line," says Mr José Badia, chief engineer of Monaco's public works department.

Monaco once boasted two railway stations but the principality removed the Monte Carlo station and buried the eastern portion of the tracks between 1958 and 1964.

A FFr1.2bn project, due to be completed by 1998, will give a boost to the principality's western section. A subterranean station will be built and about 4ha of land, now covered by tracks and by a little-used goods station, will be reclaimed.

With an area of 195ha (barely the size of Hyde Park), Monaco is always looking for ways of winning a few yards of valuable territory

At the same time, a tunnel is being dug to link Monaco directly to the A8 motorway.

"We are not doing this just for the pleasure of digging tunnels," says Mr Bernard Fautrier, minister for public works and social affairs.

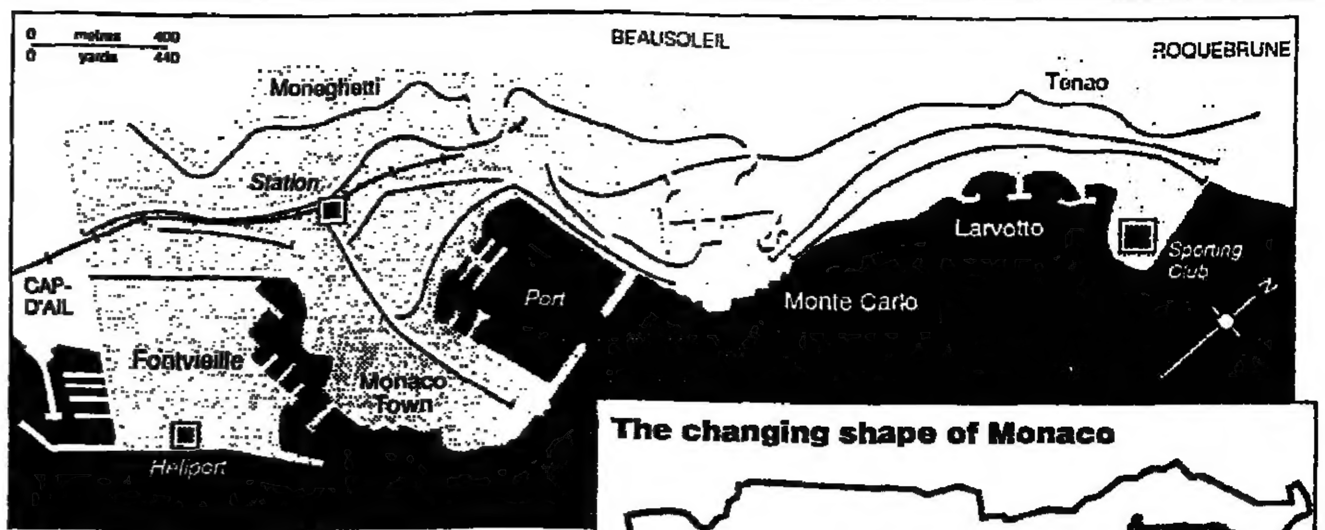
"This will allow the recuperation of land from 1996 or 1997 to build housing, offices and a small extension of the Fontvieille industrial estate," he says.

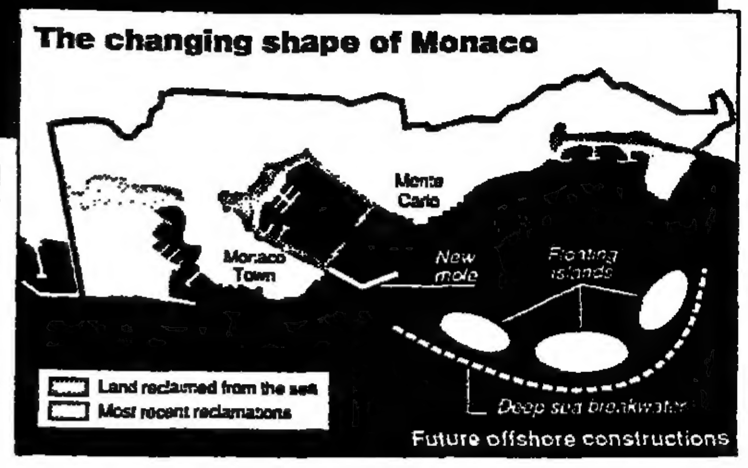
These operations may be enough to take the edge off Monaco's land hunger for 10 years or so, but the Government is already looking far ahead into the 21st century.

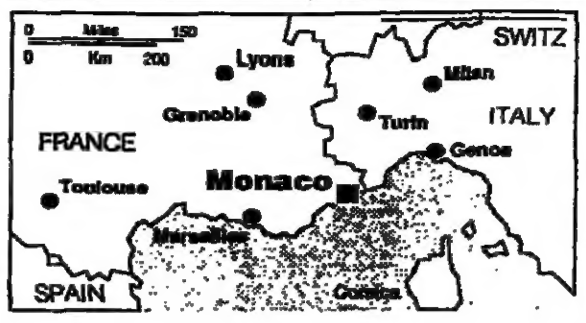
"In reality, it is unfortunately difficult to see great possibilities seawards. In the first place, nature has provided us with virtually no continental shelf, so you rapidly reach great depths, and with them, the limits of the economically possible. The second obstacle, just as important, is ecological," cautions Mr Fautrier.

Even if it were possible to build dykes as deep as 50m or 70m, the sheer volume of landfill would inhibit the construction of new polders. Increasing environmental awareness has rendered this kind of seabed devastation unacceptable.

These constraints have prompted Monaco's engineers, in partnership with Principia, an engineering company based at the nearby science park of Sophia Antipolis, to come up with a scheme for building floating islands offshore.







The first idea, already patented, is for a new mole to protect the mouth of the old Condamine port.

The 50m depth of water and ecological considerations for the seabed means this mole will not be solid but a floating caisson moored close to the surface. This will allow water to pass underneath but break the force of the waves. The hollow breakwater would be used for car parking.

The second idea seems even more futuristic: a breakwater 2000m long, anchored in 70m of sea water, sheltering artificial floating islands.

"It is a long-term project but it is not useless to start thinking about it now. We will certainly not be starting on this sort of thing for another 10 or 15 years, but when we have exhausted all our other possibilities, we will have to turn to the sea," Mr Fautrier says.

Mr Badia, of the public works department, insists that the project is perfectly possible from a technical point of view, although at a cost which may not yet make it economically worthwhile.

"It is technically feasible, but I don't think public opinion is ready for it yet," he says.

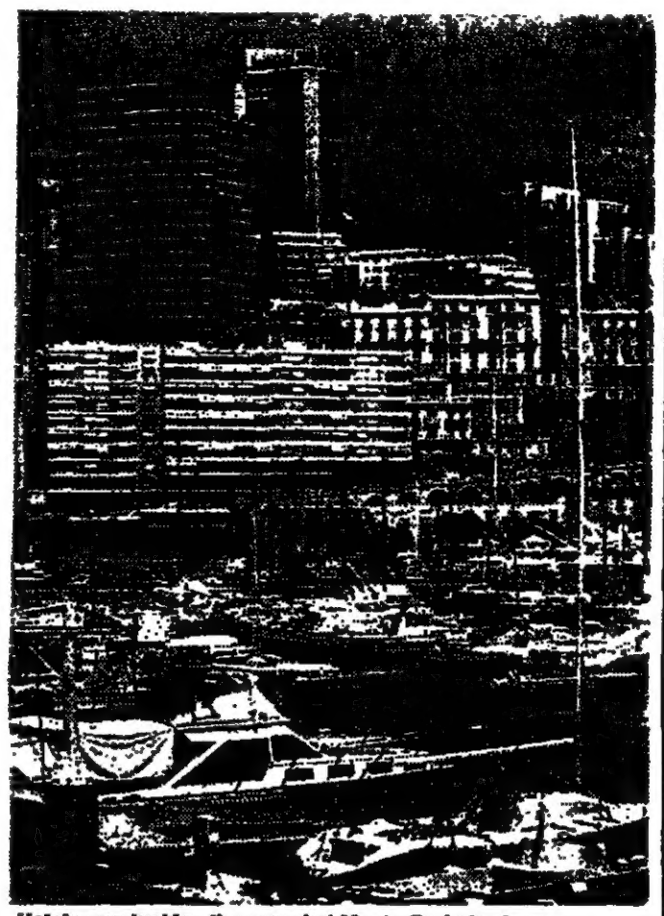
It may take a little while for public opinion to come around, but Professor François Doumenge, director of Monaco's Oceanographic Museum, is already preparing to spread his museum out under the sea.

"You can do anything in Monaco, so long as it is exceptional," he says.

Prince Albert with Princess Caroline and her son, Andrea.

KEY FACTS ON MONACO

- **Head of State:** Prince Rainier III
- **Official languages:** French and Monégasque.
- **Capital:** Monaco-Ville.
- **Currency:** French Franc (Fr).
- **Exchange rate:** FFr5.58 to the US$.
- **Area:** 1.95 sq km.
- **Visitors:** 245,146 (1989).
- **External trade:** heavily dependent upon imports from France. Member of the French Franc Zone, with customs and currency union with France.
- **Industry:** tourism is the main business sector, but industry now represents around 27 per cent of Monaco's activity, with some 700 small businesses. They include 65 companies in chemicals, pharmaceuticals and cosmetics; 19 in plastics; 60 in electronics and engineering; 77 in card and paper production.
- **Banking:** accounts for 35 per cent of financial turnover, employing over 1,200.
- **Business advice and information:** Conseil Economique, 8 rue Louis Notari (tel: 9330 2082); Jeune Chambre Economique de Monaco, BP 19 MC 98000 (tel: 9315 0422); Direction du Commerce et de la Propriété Industrielle, 8 rue Louis Notari (tel:9315 8000).
- **Other useful addresses:** Direction du Tourisme et des Congrès, 2a boulevard des Moulins (tel: 9330 8701); Fédération Patronale (employers' federation), 14 avenue de Grande Bretagne (tel: 9330 1019); Société des Bains de Mer (SBM), BP 139 MC 98007 (tel: 9330 9931); Union des Commerçants et Industriels, 14 avenue de Grande Bretagne, (tel: 9330 8581).



Hotels overlooking the crowded Monte Carlo harbour

Hotel guide

Here, for the overseas business visitor, are brief details and price-ranges of eight hotels in Monaco:

☐ **Hotel de Paris,** Place du Casino: the heart of Monte Carlo — "the place to be seen." FFr1,300-2,300 a night. Telephone 9350 8080; telex 469925; fax 9325 597.

☐ **Hermitage,** Square Beaumarchais: a baroque gem, calmer and cosier than the Hotel de Paris. FFr950-2,000 a night. Telephone 9350 6731; telex 479432; fax 9350 4712.

☐ **Loews,** 12 Avenue des Spelugues: bigger and newer, with smooth service and five in-house restaurants. FFr975-1,990 a night. Telephone 9350 6500; telex 479435; fax 9330 0157.

☐ **Metropole,** 4 Avenue de la Madone: newly opened, with all the marbled splendour of another age, plus hydro-massage in every bathtub. FFr950-1,900 a night. Telephone 9315 1515; telex 489836; fax 9325 2444.

☐ **Mirabeau,** 1–3 Avenue Princesse Grace: the newest hotel in the SBM portfolio. FFr850-1,800 a night. Telephone 9325 4545; telex 479413; fax 9350 8485.

☐ **Beach Plaza,** 22 Avenue Princesse Grace: the only year-round hotel on the seashore, part of the THF chain. FFr645-1,850 a night. Telephone 9330 9880; telex 479617; fax 9350 2314.

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☐ **Telephone numbers of Monaco tourism offices abroad:** in London, 071.629.4712; Paris (1) 42 96 1223; in Dusseldorf, 211 49 3892; Milan, (02) 869 0536; Chicago, (312) 939 7883; New York, (212) 759 5227; Tokyo, (03) 501 2808.

Mecca for motoring enthusiasts

Ferrari dominates classic car auctions

MOTORING enthusiasts will be flocking to Monaco next week for the 48th Monaco Grand Prix.

For many car-lovers, however – especially those who cannot stand the roar of a Formula One race or whose tastes run to something a little older or more luxurious – the high point will come earlier in the week, with two days of classic car auctions.

Fittingly, for a town that boasts an indecent number of the red-liveried monsters per yard, the auctions will be dominated by Ferrari.

Sotheby's is offering a rare 1962 Ferrari, while Christie's is confidently expecting to top $55m with its sale. This includes a 1957 Ferrari 315S, whose estimated price of over $12m, if realised, will smash the previous world car auction record, $8.8m for a Bugatti Royale sold in 1987.

Classic cars have become Monaco's trademark as an auction centre, but its position as one of the main European sale centres owes less to its motoring tradition than to its ambivalent position, half inside and half outside France.

The principality has become more or less the French home of the two big international auction houses, substituting for Paris, where tight regulation of the auction business prevents them from conducting sales.

In France, the auctioneer, or Commissaire Priseur, needs an individual licence which must be acquired from someone retiring from the profession, and then approved by the justice ministry.

With this official status, the Commissaire Priseur conducts public sales on behalf of the law courts or of the government, and also acts as the collector of registration duties on other sales.

The Commissaires are far from being a negligible force in the world auction business; together, they are estimated to account for around 20 per cent of a world auction market which totalled some FFr40bn last year.

They are, however, highly splintered. From being licensed individuals, some have begun to group into partnerships, but the largest of these partnerships, Ader-Picard-Tajan, still has less than one tenth the sales volume of Christie's, which has some 30 per cent of the world market, and less than one-fourteenth of Sotheby's, whose market share is around 40 per cent.

Classic cars have become Monaco's trademark as an auction centre

In addition, the Commissaires Priseurs have only recently been allowed to bring in outside shareholders – up to 25 per cent of their equity – and have always complained of being short of the capital necessary to finance big international sales.

The monopoly of the Commissaires Priseurs has prevented foreign auctioneers from conducting sales inside France, but French laws have also made it difficult for them to take works of art from France for sale in London, Geneva or New York. The French Government, like many other countries, can forbid the export of a work of art, and also has a pre-emption right over any work which comes up for sale.

At a sale conducted in France, this presents no problem for the seller, for the pre-emption is exercised at the hammer price. If the work is to be shipped to London, say, for auction, the pre-emption takes place at customs, and on the basis of an estimate price agreed between the auctioneer and the seller as a minimum reserve, rather than at full sale price.

Auctioneers do not say so, but export estimates have also sometimes been set on the low side with the aim of avoiding tax or exchange control difficulties.

Monaco represented the answer to this problem, for pre-emption by the French Government is exercised at the hammer, not at Customs. The business has thrived, and Sotheby's last year more than doubled its sales to FFr570m, though this figure was boosted by the de Ganay collection, including two Leonardo drawings. Christie's, which started later in Monaco, tripled its sales in 1989 to FFr332m.

"It is an important base for us. Without Monaco, all our efforts in France would come to nothing," comments Mr François Curiel, managing director of Christie's Europe.

"We sell in Monte Carlo things which we believe are to a French taste: 18th century furniture, Old Master paintings and drawings, 19th century paintings and drawings, French silver, Chinese porcelain, art nouveau and classic cars," says Mr Julian Barran, head of Sotheby's in France.

Buyers come from all over, but sellers are for the most part French, except for sales of porcelain, art nouveau and art deco – for which UK regulations make it difficult to conduct sales in London, since British Customs officers tend not to regard art deco objects as art, and subject them to 30 per cent import duty.

Both auction houses act technically under the aegis of a Monegasque court bailiff, Sotheby's in the prestigious premises of the Société des Bains de Mer (SBM), and Christie's in the Loews and Metropole hotels.

In France, auction commissions on big lots are limited by law to 4.9 per cent, of which 2 per cent goes to the government. In Monaco, the auction houses can charge 11 per cent, although this must be shared with the court bailiff and includes registration duty. This duty used to stand at 5 per cent, but it was lowered to 2 per cent at the beginning of this year, so increasing the auctioneer's margin – a sign of Monaco's eagerness to keep its auction business.

"The auctions are above all a source of prestige. They correspond entirely to Monaco's image of quality," says Mr Jean Pastorelli, the Finance Minister.

But what will happen to Monaco if France's auction monopoly tumbles in the face of the single European market?

Observers argue that while the Paris Commissaires Priseurs still prevent Commissaires from other French towns from selling on their turf, the monopoly is still far from dead.

In any case, if commissions are still limited to 4.9 per cent, neither Sotheby's nor Christie's will be hurrying to convert their Paris offices into fully-fledged salerooms, even though both, clearly, are preparing busily for the day that they can do business in Paris.

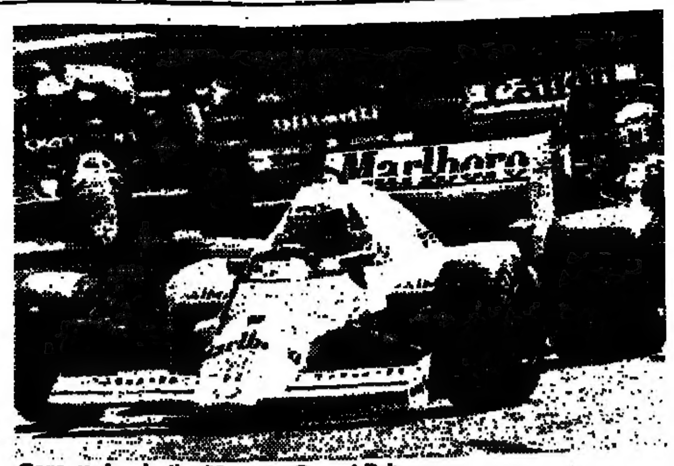
"We believe the advent of the Anglo-Saxon auctioneers would restore Paris to the pre-eminent position in the art market which it enjoyed up to the 1950s," says Mr Barran.

This does not mean that Monaco is destined for oblivion as an auction centre once Paris opens up.

"I think that just as we have Geneva, for example, specialised in small precious objects, jewels and silver, so Monaco will still have its place, even if Paris opened up," says Mr Curiel of Christie's.

"Monte Carlo is a centre in its own right. I would still certainly keep it for sales, especially for glamorous events," adds Sotheby's Mr Barran.

Mr Pastorelli, too, believes his country can keep a role as an auction centre – "there is enough business for everyone. We have sales which are important at our level, but on a European scale it is hardly major. In my opinion, Monaco threatens no-one."



Cars racing in the Monaco Grand Prix

Record prices expected

A NEW world record price for any motor car is expected to be set by Christie's in Monaco on Tuesday, May 22, when the famous 1957 Ferrari 315S (pictured below) is expected to bring a price of more than $12m.

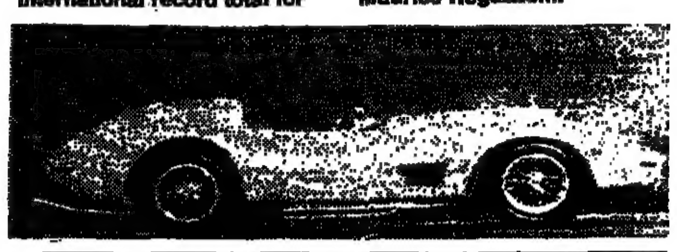
The current record price for any car stands at $8.8m, established by the Bugatti Royale, sold by Christie's in London in November, 1987.

The Ferrari – which was raced by champions and is fitted with a 3.8 litre engine – will highlight a significant group of classic cars at the auction which could bring an international record total for any car sale of around $55m.

The sale of more than 40 cars includes some of the rarest models of Ferrari, Maserati, Alfa Romeo and Bugatti models, as well as seven Formula One racing cars.

In a new initiative, the 315S is being exhibited in Tokyo, Hong Kong, New York, London and Paris.

One of the five built for the 1957 racing season, it became one of the manufacturers most powerful models and was raced by champions such as Mike Hawthorn and Maurice Regazzoni.



New projects at Monaco's Oceanographic Museum

A centre for marine exploration

A BUILDING as massive as Monaco's Oceanographic Museum can scarcely be said to "perch," yet its spectacular site, precariously overhanging the Mediterranean, 280 feet below, makes the word seem appropriate even for this vast stone bulk.

Inside, the Oceanographic Museum, which opened in 1910, perpetuates the passion of Prince Albert I of Monaco for the sea – a passion which led him on 28 scientific voyages around the world.

Today, its 90 aquarium tanks housing 450 species of fish provide the lure to make the Oceanographic Museum the most visited museum in the French hexagon, after the main Paris museums.

But the building also houses an important reference collection of scientific specimens, many of them collected by Prince Albert on his research yacht, the Hirondelle; also a major oceanographic library and an important marine research activity.

Taking its cue from Prince Albert I, Monaco has always played a leading role in oceanographic research, particularly within the Mediterranean. The Principality, backed by the International Commission for the Scientific Exploration of the Mediterranean Sea (CIESM), gave the impetus which led to the signature of the Ramoge environmental protection agreement between France, Italy and Monaco in 1976.

Professor François Doumenge, director of the Oceanographic Museum as well as secretary-general of the CIESM – Prince Rainier is its president, as his great-grandfather Prince Albert was before him – argues that the museum can play an important part in awakening public awareness of the dangers to the marine environment – "we cannot be emotional about this – we have to work on the real, not the emotional – "if we can make the public understand, for example, how the sea lives on planckton, they will easily be able to understand why any maritime pollution is a catastrophe," he says. Professor Doumenge took over at the beginning of last year from Commandant Jacques-Yves Cousteau as head of the museum, after a distinguished career as a tropical oceanographer and specialist in fisheries and acquaculture. He believes there is too little awareness of the importance of the oceans in maintaining the ecological balance of the planet – "coral reefs are the biggest converters of carbon dioxide in the world – "fifty per cent of all carbon dioxide is fixed by coral reefs, so any damage to them can have far more serious consequences than the greenhouse effect or coal-fired power stations," he says.

The Oceanographic Museum adds impetus to environmental awareness

"The oceans are a very important regulator. The Amazon or the Congo are a few per cent of the global system, but the oceans are 80 per cent."

Monaco's Oceanographic Museum has recently accomplished its own exploit which may one day prove crucial to the survival of the world's coral, with the setting up in an aquarium of the first self-sustaining coral reef. To the casual visitor, the reef seems like just another, if particularly lively and colourful, aquarium tank, but in fact it represents a significant technical achievement. The museum transplanted 40 cubic metres of rocks, sand, coral and fish from a reef near Djibouti.

"Microcéan" technology developed by the University of Nice allows the reef to live as a microcosm, without any external filtering or additives, with the exception of small quantities of bacteria needed to maintain a precise equilibrium. Inaugurated in November, it has already produced results, as its corals start to grow again.

The patented "Microcéan" technology, developed by the University of Nice, allows the reef to live as a microcosm, without any external filtering or additives, with the exception of small quantities of bacteria needed to maintain a precise equilibrium.

Inaugurated in November, it has already produced results, as its corals start to grow again – "just as you have nurseries for trees, so you could have a nursery for coral; already some of our corals are creating problems because of the size they are growing to.

That could open the way to an acquaculture which would allow you to sell coral curios without pillaging the natural environment," he suggests.

"The problem with acquaculture is *time*. It takes you 30 years to develop a technology. Look at salmon, which at first were farmed to repopulate the natural environment, and 20 years later are farmed for the table."

If this comes to pass, it may be the Mediterranean, whose corals have been devastated by pillage and pollution, which is in most urgent need of repopulation. Prof. Doumenge is gloomy about the prospects of the Mediterranean which washes against the rocks below his office windows – "the Mediterranean is a sea which has disappeared several times in its history and which is geologically threatened with disappearance again. Now it is also threatened by the sheer human density on its shores."

"Pollution in the Mediterranean is trapped, so it is more dangerous than in the open sea. The big oceans act as shock absorbers for pollution, but the closed seas, like the Caspian, the Great Lakes and the Mediterranean, act as amplifiers."